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# THE TROJAN HORSE OF DEMOCRACY

BY F. A. HERMENS

## I

### *The Rules of the Game*

IT IS not so long ago that it seemed to be the consensus of scientists that institutions cannot have any material influence, and that rather than molding social forces they are themselves molded by them. This was a natural reaction to the optimism of eighteenth century enlightenment philosophy, which had assumed that we can improve everything, human nature included, by adopting the right kind of institution. As always happens, the reaction went too far. Political science in particular now admits that institutions in some cases do govern the behavior of men—all the more so because their influence is not noticed, and therefore not opposed, by those who are subjected to it. Such political institutions are comparable to the rules of a game which, once fixed and accepted, largely control the type of men who succeed. Thus a good performer on the football field might be poor at soccer or tennis; the rules of the game do or do not permit a man to be successful, and by the same token they may make or break a career.

In a democracy men are sent to the top by a process of competitive elections. The electoral law fixes the rules prevailing in this game; it is the most important part of the institutional set-up of a democracy, and Montesquieu rightly compared it to the law regulating the succession to the throne in a monarchy. The fact of the matter is that the two principal sets of rules which can be applied to elections—the majority system and proportional representation—produce results that are altogether different.

The hurdle which the majority system forces the winner in an electoral contest to take is the capturing of a majority of the votes

cast. This is a task which as a rule only a candidate of comparatively moderate views can perform. A radical will soon discover that though he may have a considerable number of followers, they do not constitute a majority. If he insists on running his opponents can easily defeat him by blocking their votes on a man of more moderate views, who is then elected. Considering the physical and financial efforts which an electoral campaign requires, the radical will in most cases not try at all or at least not try again. If he does, many of those who would support him if he stood a chance will refuse to go along with him. If they backed him they would, as they put it, only "throw their votes away." These voters can make a much more efficient use of their ballots by throwing them to a candidate whose chances are better, even though his views may be more moderate than those of the man of their original choice. The people of North Dakota have given a neat illustration of this; in November 1936 they gave Lemke three times as many votes as a congressional than as a presidential candidate, realizing that in the presidential elections the issue was between Roosevelt and Landon, and that a vote cast for Lemke could not but benefit the nominee of the Republicans.

The friends of proportional representation admit that the majority system has in many instances excluded radical members from legislative bodies. But they contend that proportional representation only brings to light a force which exists, whereas the majority system suppresses it and may prepare the ground for a revolutionary upheaval. By so arguing they overlook the educational effects of the majority system. As mentioned before, many who would vote for the radical candidate if he had a chance, voluntarily shift their support to a more moderate candidate if that is the only way to make their votes count. Though this step may be largely opportunistic, they will try to justify it to their consciences; they will rationalize their actions and willingly allow themselves to be permeated with the political teachings of the party to which they deliver their votes. They will indeed have good reason to do so. The radical candidates of the left are thwarted by the majority

system as well as those of the right. They, the extremists of both wings, are not able to provoke each other by their activities, and eventually will be convinced that a moderate policy is the most advantageous one to pursue.

The sobering effects of electoral failures often extend to the radical leader as well as to his followers. Numerous are those who, after having failed as radical candidates—or realizing that they would fail if they presented themselves under a radical banner—decide to follow the more successful path of moderation. After some time this may appear to them the natural course, their original radical tendencies being looked upon by them, as by others, as an excusable error of youth. On the other hand, if the radical leader sticks to his creed he is a general without an army, and with the handful of friends who continue to follow him he may occasionally, like Maurras and Daudet in France, become a nuisance to the democratic leaders of his country; but under the majority system he will never become a danger. This, of course, forestalls the possibility of an armed uprising. The radicals will never be able to gather enough trained men and enough munitions to be a match for the army—or even the police—of their country. Further, the army and police will not hesitate to obey a government to which the majority system has given the clear backing of the majority of the voters; and what is more, public opinion will support such a government when it uses every means at its disposal to get rid of the plotters who menace the peace of the community.

The results of proportional representation are the opposite. Any radical movement of some size will be able to elect some of its members to the legislature. This will at least be sufficient to keep the movement alive. If conditions become favorable—and the condition truly favorable and ripe for such a movement is economic misery, a circumstance which the voter only too readily blames on his government—the radical elements will be able to grow. They will do so all the more because they themselves create the things of which they complain; their votes are cast against any government in office, which is thereby crippled, must struggle for

a majority, and is often not able to deal effectively with the ills that beset the country. There is then an increasing measure of justification in the extremists' charge that democracy cannot give the country a government capable of action, and that the legislature hinders rather than helps the nation in its struggle with political or economic adversities. Under these conditions many will vote for radical groups and allow themselves to become indoctrinated with their ideology, who under a majority system would not have thought of doing so. Hence proportional representation not only clears the way for the expression of existing radical groups, but creates new ones and facilitates their success.

Radical movements which can succeed as a result of proportional representation are in many ways comparable to faddists and cranks, who also under this electoral system have a chance which the majority system would not give them. To be sure, the supporters of proportional representation will object to this contention by asserting that "The best way to ruin a fool is to hire him a hall." They forget that whereas it is difficult to fool all of the people it is nevertheless easy enough to fool some of the people and even to fool them all of the time. The majority system makes it necessary to "fool all of the people," in other words, a majority of the citizens in a constituency. We may safely assume that ordinarily there are enough level-headed voters in a constituency to prevent the fools of all types from getting a majority. Proportional representation, on the other hand, makes it possible for one fool to get elected by the other fools of his district, and events have demonstrated that this can be done often enough. After having been elected the "fools" are not obliged merely to plead their cause before the reasonable members of the parliamentary body. They can vote as well as plead, and their vote, joined to those of the other centrifugal elements which proportional representation brings into legislatures, can bring the government into great difficulty. Proportional representation, by giving seats to such people, is more aptly comparable to adults putting matches within easy reach of children, rather than to hiring a hall for a fool and allowing him to plead his cause before

people who are reasonable enough to realize and reject his fallacies.

One further type of party the success of which proportional representation facilitates is special interest groups, who appeal only to the voters in a certain economic situation. Under a majority system those who want an exclusive Farmers' Party do not as a rule constitute a majority; nor do the members of the middle classes; nor do the workers who want a party of their own. But once more, with the proportional representation system a mere fraction of the electorate is allowed to send its men to the legislature. There they are pledged to one special interest to the exclusion of all others. And if a legislature becomes an "agglomeration of interests" there is a prostitution of democracy. The extremists of the right and left will not fail to direct the attention of the public, in particular of the young, to the secret bargains in which the representatives of such interest groups trade their votes. Further, the interest groups will bring into legislatures a type of man whose only qualification is the assumption that he is thoroughly "representative" of the economic interest; he does not have to know anything about the great political issues confronting the nation, and as a rule he won't. Max Weber, the famous German sociologist, after observing the results of the proportional representation elections to the German Constitutional Assembly, remarked that if this process of selection continued for some time the result would be "a parliament of idiots, altogether unable to serve as a basis for the selection of cabinet members," and it did not take long before these words were qualified as prophetic.

One further difference, and in some respects the most important one, between the two electoral systems is that the majority system creates large and moderate parties, which can easily form a majority government, whereas proportional representation encourages the formation of numerous parties, each characterized by a "world outlook" of its own and therefore unwilling to cooperate with other groups for the purpose of forming a government. Under a majority system there develops in many instances a two-party system. This system provides the easiest solution of the problem of government,

because a party with the majority of seats cannot help forming the government, which then can do its work on a reliable basis. It need not be added that no party can conquer its majority unless it is moderate; it counts numerous followers of every religious creed and economic interest and must take care to be so opportunistic as to offend none of them. If the majority system does not develop a two-party system it usually develops a system of two "blocs." Various parties cooperate and unite their voting strength upon that candidate who in the various constituencies has the largest following. The result is that the deputies of these parties have a common electorate; hence they will be inclined to pursue a common policy in the legislature. The electoral cooperation between them was of course possible only because they buried their differences and stood for a common platform, which once more is likely to be moderate and to be applied in an opportunistic spirit.

Proportional representation, however, has first and foremost a deserved reputation for breaking up two-party systems. The various parties possible under proportional representation do not lose much time before they insist upon—and thereby develop—their peculiarities. They can do so because they have to appeal only to their own followers. In the legislature they invariably flaunt these peculiarities and on the basis of such "principles" refuse cooperation with other parties. The result is inevitably confusion; but it must be borne in mind that this confusion follows from the adoption of the wrong type of institution rather than from the ill will of persons. The electorate should have been asked to return a majority to the legislature; for this purpose it needs the majority system, which it could have used to force the parties to group themselves into two fronts fighting for a majority, whether they wanted it or not. Proportional representation, however, as a well-known Italian exile has put it, asks the voter to "make a declaration of political philosophy." So he does; later there appear in the legislature parties based on a dozen or so rival political philosophies, each incompatible with the other. How indeed can we expect a legislative majority to be formed on this basis?

*The Arguments for Proportional Representation*

REPRESENTATION. The above considerations should suffice to prove the fallacious character of proportional representation. Nevertheless, the issue may be clarified if we discuss some of the arguments advanced by the other side. Their main argument was expressed in a nutshell by John Stuart Mill when, in his "Considerations on Representative Government," he declared: "In a really equal democracy, every or any section would be represented not disproportionately, but proportionately. A majority of the electors would always have a majority of the representatives, but a minority of the electors would always have a minority of the representatives. Man for man, they would be as fully represented as the majority."

This quotation from Mill makes it obvious, however, that the demand for proportional representation stands or falls on an assumption which a British Royal Commission in 1910 formulated as follows: "The object of a representative body is to represent." One of the founders of the proportional representation movement, Victor Considérant, stated clearly the fundamental importance of this assumption when, in 1842, he wrote: "Does the Chamber of Representatives have to represent the electorate? That is the whole question. If yes, all opinions, the most absurd ones, the most monstrous ones even, must have their representatives in a number proportional to their strength in the electorate." The last remark makes it obvious that the concept of representation has grave implications. Nevertheless the term representation has been a step-child of political science. Disraeli was one of the few who sensed that something was wrong with the way in which it was currently applied. In *Coningsby* he wrote: "Do you know that the more I think, the more I am perplexed by what is meant by Representation."

Let us, then, do some thinking of our own, and briefly analyze the logical implications of the term "representation." As applied in everyday life, it presupposes three factors: the one who is repre-

sented, the representative, and the one before whom representation takes place. This third factor forms the crux of the problem, and it is essential. For example, we should not call a diplomat a representative unless he had to represent his country before a foreign government, and there would be no need for the services of a commercial representative unless he had to represent his firm before a customer or some other firm.

So far as legislatures are concerned, there was once a time when all three of the required factors existed, and the term representation could therefore properly be applied to them. In the early stages of their development members represented their constituents before the king or the ministers appointed by him. The deputies were fully conscious of the fact that the "third factor" was indispensable in the constitutional set-up. The convocation of the French *États Généraux* in 1789 illustrates how they understood their functions: they went around in their constituencies, armed with their notebooks (*cahiers*), and wrote down the *voeux et doléances*, the wishes and grievances, of the people. Then they went to Versailles for the purpose of reading them to the king and his ministers, from whom they expected redress and upon whom they depended as much as an actor upon his audience. In this set-up the king was as much a practical as a logical necessity. Inevitably the demands made upon the government in the government were manifold. Many of them were mutually exclusive; others could not be realized because the difficulties of doing so were too great. It was the task of the government to select those which could be fulfilled and to fit them into a harmonious program. By so doing the king and his ministers safeguarded the unity of the nation in the face of the diversity of wishes and interests, local as well as national, which the members of parliament "represented" to him.

As the history of the French *États Généraux* of 1789 also demonstrates, the time was bound to come when the forces headed for democracy had made so much progress that the dualism between a parliament and a government not dependent upon that parliament could not endure. Parliament proved to be the stronger factor and

it eliminated the royal government. Thereby it underwent a change in function. There was no longer an agency before which the various views and interests existing in the nation could be represented, and upon which evolved the task of preserving national unity in the face of the diversity of these views and interests. This means that parliaments were no longer representative bodies. Having reversed the old government, they had to replace it. This was now their decisive function, upon the fulfilment of which the life or death of democracy depended. For if there had been no government, but only parties and deputies representing all the divergent views in the nation, the result would have been anarchy, and since anarchy is not a workable state of society the moment would have been ripe for a dictator.

It would seem to follow that since it is the express task of proportional representation to reflect in the legislature the views and interests of all the different groups in a country, we must reject it. Instead we must adopt the majority system which, as mentioned above, asks the voters to sink their petty differences and unite with the large political parties, which in turn give unity and direction to the legislature. To be sure, to this the friends of proportional representation answer with another argument of *Considérant*—that a legislature has two functions, deliberation and decision. Since deliberation must be “complete” it is for proportional representation to bring representatives of all groups into the legislature and allow them to voice their views. After this a decision is in order, which presupposes that majority rule must obtain. This argument, however, is in the first place undemocratic, because it takes the power to make decisions out of the hands of the electorate, and gives it over to the legislature, or rather to the parties composing it. In the second place, *Considérant*’s argument is unrealistic. Indeed, as was brought out above, proportional representation not only serves to “represent” existing parties in the legislature in proportion to their voting strength, but it creates new parties, which are of a different type and do not hesitate to substitute bludgeon and revolver for the rational arguments of peaceful deliberation.

**THE PROTECTION OF MINORITIES.** Another argument frequently advanced by the supporters of proportional representation is that the majority system suppresses minorities. As Thomas Woodlock recently remarked, however, in an address which he delivered in Washington, "Democracy is the protection of minorities by the rule of the majority." The reason is that it takes many a minority to make up a majority. In the United States for instance, both major parties know that they cannot poll the 51 per cent of the votes for which they so ardently strive unless they have members of all religious denominations in their ranks, as well as members of all economic groups. If in any part of the country any unit of one of the two major parties slips and forgets this, the party leaders will not hesitate to clamp down on it—as was recently experienced in Kansas, where a candidate with the reputation of religious intolerance received a rebuke from the chairman of the Republican National Committee which may have been in some measure responsible for his crushing defeat. The same applies to all other minorities. Any support is welcome to a party which is out to get a majority of the voters. Such a party is willing to pay as high a price for it as it can afford, the limit being determined by a possible conflict with the demands of the other minorities, of which the party must also take care. Obviously every demand of every minority cannot be met. But a majority party can follow through on those to which it has pledged itself, whereas these demands would receive scant consideration if, on the basis of proportional representation, each minority elected a mere minority of members to Congress.

**FAIRNESS AND JUSTICE.** We may fittingly conclude this short review of the arguments advanced on behalf of proportional representation with the claims of its supporters that the electoral system of their choice is only just and fair. On this matter let us quote the late Austrian Chancellor Monsignor Seipel; we may not agree with all of his actions as a statesman, but we may well respect him as a scholarly theologian. When discussing the relation of justice and electoral reform, Monsignor Seipel declared: "As a moral theologian I

must establish the very fundamental fact that this is a matter of 'justitia legalis,' not of 'justitia commutativa.' 'Justitia legalis,' legal justice, regulates the relations of the members of a community to the community itself; commutative justice, 'justitia commutativa,' concerns the right of the individual members of the community with regard to the other members of the community. Only in the latter case is it necessary to have an arithmetically exact balancing of claim and accomplishment. The right to vote, however, is not a private right of the voters, in which case the equal and complete utilization of their votes, when compared with other voters, would be essential. The exercise of the right to vote is rather a function which the citizen has with regard to the state. The first and only essential object of voting is to give the state a legislative body as good as possible, and therefore capable of the best possible action, and to create a majority in it well able to govern. The electoral system is not at all to be considered as to whether it is 'just' for the individual voter in the sense of 'justitia commutativa,' but as to whether it gives the state what the state needs. Therefore an electoral system like the one applied in England, which from the point of view of 'justitia commutativa' is certainly entirely unjust, may be excellent from the point of view of 'justitia legalis.' Indeed, the English people have become much more happy under the majority system than other peoples with the most complicated systems of proportional representation, and it testifies to the high political wisdom of this people that they did not undeliberately pass to proportional representation."

What Monsignor Seipel says will probably be accepted by members of all Christian denominations as a valid refutation of the claim that proportional representation is to be demanded in the name of justice. Some may not agree with the distinction between "commutative justice" and "legal justice"; to them it will suffice that Christ admonished us to give to Caesar what is Caesar's, and that proportional representation fails to do this.

Moreover, sheer commonsense leads to the same result, and its teachings will be accepted by Christians and non-Christians alike.

For the purpose of demonstration we may examine a parable with the help of which a prominent French supporter of proportional representation has tried to make it clear that that system must be demanded in the name of justice. "Five children, belonging to the same family, sit around a tart. Three of them, clad in blue, declare to the two others, who are clad in red, 'We are three. You are only two. Hence we shall eat the whole tart and you will get nothing.'" It is suggested that the three greedy children behave like the advocates of the majority system, who want—or are supposed to want—everything for themselves and nothing for the others. Yet this is only another illustration of the ease with which the use of analogy can lead to fallacy. Are the seats of a legislative body like a tart, which all those who have an appetite for it can divide among themselves? Or does the legislative body have to act as a whole and for the community as a whole? We can easily clarify this issue by changing the parable to correspond properly to the facts of the case. Suppose our five children are out in a rowboat that is midway between an island and the mainland. A storm is approaching. Three of the children want to row to the island, and two to the mainland. If they leave it at that will they not paralyze each other? Does not their only hope of salvation rest in their pulling together in the direction which the three of them favor?

## III

*Electoral Systems in Practice*<sup>1</sup>

THE MAJORITY SYSTEM AND SIR OSWALD MOSLEY. So much for theory. Turning to practice, let us begin by pointing out that the disruptive forces of proportional representation would not stop at the gates of the British House of Commons, the venerable "mother of parliaments." To be sure, many Englishmen would reply to this argument by saying that "it can't happen here," and as proof they would refer to their political traditions and their national charac-

<sup>1</sup> A detailed discussion of the problem of electoral systems as it affects each country is contained in my book, *Proportional Representation and Dictatorship*, which will be available some time during the winter.

ter. Walter Bagehot, however, who represented the British national character and understood his country's political traditions as well as anybody, wrote in his *English Constitution*, a few years after Thomas Hare had invented the "single transferable vote": ". . . upon the plan suggested, the House would be made up of party politicians, selected by a party committee, chained to that committee and pledged to party violence, and of characteristic, and therefore immoderate, representatives for every 'ism' in all England. Instead of a deliberative assembly of moderate and judicious men, we should have a various compound of all sorts of violence."

Proportional representation would produce this result by first destroying the two-party system. At the present time the Liberal Party is in a process of dissolution. Sir John Simon is leading a part of its members away into the Conservative fold, and the followers of Sir Herbert Samuel and Sir Archibald Sinclair will some time or other be absorbed by Labour. Therefore it is only a matter of time until the traditional two-party system will be restored to full vigor. There is no doubt, however, that if proportional representation were adopted it would revive the Liberal Party in the same way as it gave the Belgian Liberals a new span of life after 1899. (This, by the way, is the reason why the remaining Liberals are now as firmly in favor of proportional representation as their party was opposed to it when it was large and powerful.) With proportional representation the Liberal Party would indeed recover much of its former strength, the Liberal voters being no longer afraid to "throw their votes away" by supporting Liberal candidates. The party would be a powerful factor in the House of Commons, for it would hold the balance between Labour and the Conservatives.

But this is not all. The various factions of the Conservative Party would appreciate as much as the Liberals the "New Freedom" which proportional representation would give them, and it is probable that Die-hards of the type of Sir Henry Page Croft would no longer be willing to live under the same political tent with the

modern believers in Tory democracy, like Lord Baldwin and Mr. Eden. Similarly, the Labour Party might split into the followers of Herbert Morrisson and Sir Stafford Cripps. Thus most anybody would obtain a party to his taste. It is hard to say exactly how many parties there would be, but one result would be certain: one party alone would no longer be able to obtain, nor even hope to obtain, a majority of the seats in the House of Commons. This would deprive the British voter of the possibility of deciding directly upon the party which is to form the government. A coalition would have to be formed, and how the English would react to this can be concluded from the fact that they still like to quote Disraeli's saying: "This country does not love coalitions."

Things would be complicated by the new chances which proportional representation would give to the extremists. Sir Oswald Mosley's fascists march through the streets of London to the strength of several thousand men. The majority system keeps them just there, and if they become too provocative the police divert them into the open spaces of Hyde Park which since time immemorial have proved wholesome for those who needed to "let off steam." But proportional representation would open to them the gates of Parliament. At the last elections for the London County Council Mosley's candidates polled up to 20 per cent of the votes in their constituencies. This was a poor showing under the majority system, but under proportional representation it would lead to successes if the constituencies should return five or more members. Sir Oswald would benefit from the fact that the Communists would do even better than he: a dozen or so communist M. P.s would be considered by many moderate voters an irrefutable proof that Britain needs fascism to rid it of the bolshevist danger.

**THE MAJORITY SYSTEM AND THE FAILURE OF FRENCH FASCISM.** Conditions are similar in France. To be sure, her democratic institutions are weak, but they exist and have proved their resiliency by overcoming crises which many expected to be lethal. The reason is that the majority system saw to it that the opponents of democ-

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racy were even weaker than its friends. This was first experienced by the Communists. As long as they were truly radical and proved it by voting against the candidates of the left as well as against those of the right, they obtained, according to the calculations of Lachapelle, veteran leader of the proportional representation forces in France, about one fifth of the seats which proportional representation would have given them. Thus they could not be much of a menace. Since 1934 the Communists have turned to the support of the program of the Popular Front, voting for the candidates of the other leftist parties at the second ballot and receiving their backing wherever they head the leftist poll. Thus in 1936 they elected 72 deputies; proportional representation, however, according to Lachapelle, would have given them 93.

But the 72 Communists in the Chamber have never forgotten that they came there on the crutches of the electoral support given by the moderate parties of the left. Though their attitude in the country has often been equivocal they have shown a true spirit of abnegation in the Chamber; they have voted for all governments of the left, even for that of Chautemps, who openly solicited their opposition. They do not forget that if they returned to their old radical ways they would lose the electoral support of the other parties of the left. If then new elections were fought under the majority system, most of the Communist seats conquered in 1936 would be lost. Therefore, under present conditions, the Communists must behave or walk the plank. Proportional representation, of course, would give them their "New Freedom" and allow them to be as radical as they please.

The extremists of the right have been handicapped in the same way as those of the left. The best example is the "Croix de Feu," now the "French Social Party." Its leader, Colonel de la Rocque, was able to mobilize an unprecedented number of followers in the country, but he could not remove the barriers which the majority system had erected in the way of electoral success. The Colonel knew that in practically all constituencies he could do nothing without obtaining the votes of the moderate right and the center,

which in most cases were not available to his candidates. Thereupon he acted like the fox in the fable who said that the grapes which he could not reach were sour. He declared that he wanted to be merely the "arbiter" of the elections, throwing his support to those candidates of the right whom he liked best. In return he expected some kind of recognition. But though most of the rightist members of the new Chamber had benefited from his support, they refused to take any orders from him. They could afford to refuse, because the Croix de Feu could not but have supported them anyway, if it did not want to turn the seats to the leftists. But the Colonel carried the policy of the lesser evil to the extent of ordering his followers to vote even for conservative members of the Radical Party, like Malvy, who had been accused of treason during the war. When trying to make this policy understandable to his henchmen, the Colonel said: "Vote, always vote; afterwards put your finger into your mouth and you will vomit. I shall probably do as you do."

Such advice could do little to keep the enthusiasm of the Colonel's followers alive. But worse things occurred in June 1936, when the government of the Popular Front dissolved the Leagues of the Right. The Croix de Feu like the other radical factions submitted without as much as a show of resistance, and in order to save what he could the Colonel formed his French Social Party. What a step down the ladder for the members of a "movement" which was out to rid the country of the "corrupt system of party government!" Indeed, this almost amounted to the Colonel's signing his own political death warrant. On the other hand, one cannot help comparing this situation with that in Germany in 1932, when Brüning and General Groener, his Minister of the Interior, dissolved the National Socialist storm troops. In Germany the dissolution decree was greeted with a storm of protest, vociferously led by the National Socialists in the Reichstag. Proportional representation had allowed them to obtain their seats, and hence they were able to attack the government as recklessly as they wished; and Brüning was handicapped because he could not, like Léon

Blum, claim a clear popular mandate for what he did. Thus, while Léon Blum's show of energy did away with the armed threat to the republic, the similar attempt made by Brüning marked the beginning of the end of his government.

The political defeat of the Croix de Feu had a sequel. Some of the followers of De la Rocque were impatient with his policy of submission; they held it necessary to prepare an appeal to force and founded the "Secret Committee for Revolutionary Action," popularly known under the name "The Cagoulards," or "The Hooded Ones." Their action found some measure of support from the right, and one of their leaders was the general, Duseigneur. At the end of 1937 this plot was discovered and one after the other of their deposits of ammunition were detected. This threat of an armed uprising became a boon rather than a threat for the government. The parties of the left were struggling hard with the financial and economic difficulties of their country. In these thorny fields no success appeared in sight, but the uncovering of the rightist plot gave the left a chance to work in the field where they always celebrated their triumphs: in the defense of the republic. Here they once more easily won their laurels. Public opinion swung almost unanimously to their support, and the members of the Cagoulards had to realize that there was no use in challenging the authority of a government which had obtained a clear majority at the polls.

**MUSSOLINI'S DEBT TO PROPORTIONAL REPRESENTATION.** Let us now turn to Italy, where the political situation was, before the adoption of proportional representation, about the same as it is now in France. There were no well disciplined political parties; the individual deputies acted however it pleased them in the Chamber and overthrew many a government. When in 1919 proportional representation was adopted it was for much the same reasons for which its adoption is now recommended in France. It was contended that proportional representation would create well disciplined parties, which then could easily form a stable government.

Large political parties promptly appeared, but they were a hindrance rather than a help. None of them was strong enough to form the government alone, and since they were all characterized by a different "world outlook" their leaders felt bound to avail themselves of party discipline to prevent their members from supporting a strong coalition government. The same state of "political pluralism" appeared which later preceded the end of the German republic.

The first proportional representation elections in Italy were held in September 1919. It was said that proportional representation was a success, because under a majority system the Socialists would have obtained a majority, and this might have led to upheavals. Of such an outcome there is, however, considerable doubt, because the Socialists polled only 32.3 per cent of the votes, and all other parties might have combined against them. If, however, the Socialists had really obtained their parliamentary majority, the moderates among them would have prevailed in their ranks; under a system of single-member constituencies the voters would have known how to eliminate candidates who were as radical in deeds as they were in words. Government responsibility, inseparable from a majority, would have done the rest to insure moderation in the party's policy.

Later developments corresponded exactly to what the opponents of proportional representation had predicted in the Italian Chamber in July and August 1919. The two mass parties of the Socialists and the Catholics had, if combined, a majority. But the Socialists refused to cooperate with other "bourgeois" parties until the fall of 1922, when it was already too late. On the basis of their numerical strength they nevertheless made strong demands upon every government, thus attempting to combine the advantages of government with those of the opposition. The Catholics presented similar difficulties. Before the war, in so far as they took part in the elections, they had joined their forces with the other groups of the right, and before the elections a platform was drawn up on which a cooperation was possible in the country as well as in the

Chamber. In 1919 proportional representation gave to these former allies the "New Freedom" of which the friends of proportional representation are so proud; every party obtained its seats by its separate efforts instead of by an alliance with other groups. Thus the voter was not able to weld these groups into a compact block, and in Parliament a sufficient degree of cooperation was not possible.

Whatever governments could be formed under these conditions were unstable and weak. They could not obtain parliamentary consent to most of their legislative proposals and therefore they governed by decrees, at the average rate of more than one per working day. The situation soon grew so desperate that the veteran leader Giolitti had to be called back from virtual retirement. Before the war he had always been able to solve a crisis. He was master in the art of *rimpasto*: he knew how to form a majority from the various elements of which the prewar Chamber was composed like a baker who kneads and re-kneads his dough to form a loaf. He now, however, found himself dealing with material which did not yield to his traditional methods. The new parties were like stones rather than like dough and it was not possible to break part of them away and incorporate them into a new majority.

Despairing of success, Giolitti dissolved the Chamber and formed joint lists with the Fascists, hoping that they at least would be able to break up the rigid parties of the Socialists and the Catholics. In the new Chamber the situation was, however, rather worse than in the old one. On the left there appeared 15 Communists, none of whom would have been elected under the majority system; they were a welcome basis for the Fascist contention that a danger of bolshevism existed. At the right there were 36 Fascists, most of whom had come there with the help of Giolitti. The latter, whom the Fascists had shortly before branded as a traitor, would not have thought of bringing them into Parliament if the conditions created by proportional representation had not driven him to despair. He would not have been able to do so even had he wished, because in single-member constituencies of the majority system the old depu-

ties of the right and center would have defended their positions, with or without the endorsement of their political leaders, and their moderate electors who turned the scales would not have hesitated to vote for them rather than for their Fascist opponents.

In the new Chamber as well as in the old cabinet instability was much more serious than it had ever been before the war. Between the conclusion of the armistice and the breakdown of parliamentary government in October 1922 ten governments under five different Prime Ministers held the field. The authority of each government was weaker than that of its predecessor. Eventually, in February 1922, Facta was appointed Prime Minister. The reason was not that he was the strongest but that he was the weakest man available. The history of Facta's government is a history of crises, and Facta was so preoccupied with "solving" them that he had neither time nor authority to deal with the civil war which raged in the country. When on October 28, 1922, the Fascists marched on Rome, his Ministers had once more resigned. Facta pulled himself together and proposed to the King the establishment of martial law, with the help of which the Fascist uprising could easily have been crushed. Facta's demand, however, was made in such a hesitating manner that, after some reflection, the King refused to give his signature. This refusal would have been impossible had Facta's government been backed by a strong majority; furthermore, in favorable circumstances the King would have unhesitatingly agreed to Facta's proposal because he had no sympathy with the Fascist insurrection. As conditions were, Mussolini marched on Rome in a sleeping-car!

**PROPORTIONAL REPRESENTATION AND THE BREAKDOWN OF THE GERMAN REPUBLIC.** The story of proportional representation is even more strange in Germany than in Italy. The Germans like to go to extremes in whatever they do; they never stop to consider the consequences of their actions, no matter how absurd they may all too obviously be. When in 1919 the National Assembly adopted proportional representation—against the loudly voiced warnings of

Friedrich Naumann, who predicted that such a step would mean the end of parliamentary government—it made the system a part of the constitution and prescribed it at the same time for the parliaments of the various states (*Länder*). The abolition of proportional representation would have required a two-thirds majority. This was impossible of attainment, because the vested interests which proportional representation was not slow in creating were represented by so many deputies elected by reason of proportional representation that a two-thirds majority against it could never have been achieved. To make things worse, in 1920 the so-called "automatic system" was adopted. Proportional representation, as applied for the elections of the National Assembly, had not proved to be "proportional" enough, the parties which were concentrated in certain areas having gained at the expense of the others. Henceforth a deputy could be elected for every 60,000 votes, and in some constituencies this required only 3 per cent of the total votes cast. Thus full or almost full proportionality could be achieved. But it was small wonder that new parties arose in much the same way as mushrooms grow after a spring rain.

At the elections of 1919 the principal result of proportional representation was to prevent the Socialists from obtaining a majority. In contrast to Italy, a Socialist majority would have been probable if there had been a majority system. It has been asked whether for Germany as well as for Italy a Socialist majority would not have led to radicalism and civil war. To the same question the same answer must be given: with a majority system most of the left wing Socialists would have been defeated; in all probability the party would have been as moderate—as timid almost—as it was before the elections of the National Assembly, when the Socialists held the power alone.

Nevertheless, in the National Assembly there was at least a clear majority, and a government was formed by a coalition of Socialists, Democrats and Center Party. But when in 1920 the first Reichstag was elected the growth of the Independent Socialists at the left and the Nationalists at the right—possible only on account

of proportional representation—put the Weimar coalition into a minority. The “Republic without Republicans” had been born. One minority government followed the other, and when in 1923 a government commanding a majority was formed, it was headed by a Chancellor who was not a member of the Reichstag and who sought his support in the main from the right.

At later elections proportional representation allowed a number of new groups to arise, among which the interest parties were the most enduring feature. There were two peasant parties and the “Economic Party of the German Middle Classes.” They exhibited the characteristic drawbacks described above. In addition to the interest groups, proportional representation brought radicals like the National Socialists and the Communists into the Reichstag. With a majority system a few Communists would always have been elected, because they possessed local strongholds. But they would have obtained only a fraction of the seats which proportional representation gave them—not enough for obstructing the work of the moderate parties, or for turning the Reichstag into a battlefield, or for substantiating the claim of the National Socialists that Divine Providence had sent them to rid Germany of the bolshevist danger. The National Socialists were worse off than the Communists. They had no local strongholds upon which to rely; instead they had to gather their votes from all over the country. Before 1930 they would in all probability never have been successful in winning a seat under the majority system. After several electoral failures, which of course would have been a heavy drain on their financial resources, they would probably have considered it useless to present any more candidates. The party might have died of its own inefficiency and Hitler resumed the painting of houses.

Things being what they were, the National Socialists could go with high hopes into the elections of 1930, where they obtained no less than 107 seats, exceeding even their wildest expectations. Although they had piled up such strength it can be said with assurance that under the majority system they would not have become a danger for German democracy. If the whole territory of the

Reich were subdivided into 400 single-member constituencies of approximately equal size, it could be observed that in no constituency did the National Socialists obtain as much as 40 per cent of the votes. Their forces were more equally scattered over the whole country than those of any other large party, and under a majority system this would have meant defeat almost everywhere. On the other hand, the Socialists and Center Party would have been in an excellent position. Combined, they would have had an ample majority, which would have preserved the integrity of the German republic.

In the circumstances, however, Brüning had to gather his famous "majority of toleration," consisting of 11 different groups. Otto Braun, then Socialist Premier of Prussia, had called for such a solution, terming it a *Koalition aller Vernünftigen*—"a coalition of all reasonable men." He overlooked the fact that it is the beginning of the end of a democracy if no "reasonable men" are allowed to stay within the opposition. A legal opposition is what distinguishes a democracy from a dictatorship. The voter is aware of the fact that the only way for him to make "responsible government" responsible is to vote for the opposition. Under normal conditions there is no danger in his doing so. The only result is that when the "ins" are worn out, they are replaced by the "outs." The latter attack the task of government with renewed strength, and being "reasonable" are prepared to change their places with their opponents if they become the minority. If, however, the opposition is of a different type and is unwilling to abide by the rules of the democratic game this will not keep the voter from supporting it. The results are destructive of democracy, for the groups which then come to power will not allow themselves to be succeeded by any other group; they will abolish free elections once and for all.

But how can the voter foresee this outcome? After all, he never cares very much for ultimate results, and in the Germany of 1931 and 1932 he had many immediate reasons to vote for the opposition. Above all, he wanted to protest against the world economic

crisis. This protest vote, directed more against unemployment and higher taxes than against the government, existed in Germany as well as in the United States, in England and in France. In the great western democracies it went necessarily to the large democratic opposition parties. Voting for one of the minor groups would have meant "throwing one's vote away." In Germany, however, the National Socialists, the Nationalists and the Communists not only could easily obtain seats for all the votes received, but they were the only parties to which the protest vote could go. They had a monopoly of the opposition and their opponents a monopoly of the responsibility. Moreover, the German voters had an added reason to swing to the extremists: the "coalition of all reasonable men" was artificial. The voter considered it unnatural that the Socialists cooperated with Monarchists like Count Westarp in the support of the same government. He thought so particularly in view of the fact that both the Monarchists and the Socialists had availed themselves of their "New Freedom" and fought the electoral campaign on the basis of their own "programs" exclusively. The man of the street was ready to listen to the agitators who told him that the only reason why all democratic parties cooperated was that their office holders trembled for fear of losing their jobs, and that they actually had no concern for the "world outlook" which only shortly before they had held up as the desideratum of all voters.

Thus it was only natural that in the two Reichstag elections of 1932 National Socialists and Communists combined had a majority. This "majority," of course, was only negative; it could defeat a government but not replace it. The only positive purpose for which it was used was a vote of an amnesty for political convicts, and this amounted to an exchange of prisoners between two warring factions. Therefore, with the result of the two elections of 1932, German democracy was dead. Dictatorship of some kind or other was inevitable. In the confusion then existing intrigue decided in favor of the dictatorship of Hitler rather than of a dictatorship of Schleicher, but it must be borne in mind that intrigue

could clinch the issue only because the situation was so confused. Old President Hindenburg had given proof enough that he was willing to respect the will of the people when it was clearly expressed; he had done so for seven years and many of those who had voted for him in 1925 never forgave him for it. But in 1932 the people had spoken with so many voices that each drowned out the other. Since a clear will of the people was no longer discernible it was natural that the aged President gave ear to his personal friends, who on January 30, 1933, brought Hitler into power.

**PROPORTIONAL REPRESENTATION AND THE AUSTRIAN TRAGEDY.** The breakdown of German democracy was followed by the Austrian tragedy. Proportional representation made little Austria's politics unnecessarily complicated from 1919 on. It allowed the two minor parties of the "Great Germans" and the Agrarians to arise, thus preventing the concentration of political power which would have been possible in a clear two-party system, in the hands of the Catholics and the Socialists. The real danger, however, arose in 1931 and 1932, when the Nazi wave swept over Austria. The followers of the two minor parties went almost unanimously over to the Nazis, who also made gains among the Catholics, whereas the Socialists maintained themselves well. The National Socialists demanded new elections and in an atmosphere of confusion the Federal Council voted its own dissolution. It did not dare, however, to fix a date for making it effective. The reason was that in the new Council there would have been no majority for a new government; the existing one would have to face a heterogeneous opposition by National Socialists and Socialists, which could defeat it but not replace it.

On March 4, 1933, this parliament died in the tragic-comic manner which characterizes so many parliaments elected by proportional representation. The government claimed that a motion directed against it had been defeated by a tie vote of 80 to 80, whereas its opponents claimed to have carried it by 81 to 80. For further votes it might have been decisive that the speaker, a Socialist, had

no vote. Thus he resigned, in order to be able to vote with his party. But in turn the deputy speakers made their appearance and did the same; ultimately the Council was without a speaker to direct it, and the deputies left it at that and went home, nobody having the right to summon it anew. On March 5, 1933, Hitler and Hugenberg achieved a majority in the German Reichstag. Dollfuss, the Austrian Chancellor, realized that henceforth new Austrian elections under proportional representation could only benefit the Nazis. Being a democrat to the core—this must be said of him in fairness—he tried to save what he could of the liberty of his country, and since the Chamber was but an obstacle in his way he governed without it. Later Mussolini and his Heimwehr allies forced on him the policy which led to the bloody clash with the Socialists in February 1934. Dollfuss could not prevent it, and instead of blaming him it would be fairer to point to the confused situation which confronted him, and which proportional representation had created.

With a majority system Austria could have remained a genuine democracy to the last. The Austrian Nazis suffered from the same weakness as did their German friends up to 1930: they had no local strongholds where they possessed a majority. According to what basis there is for determining their strength, they had about one third of the total vote in the country. It is probable that not even in Graz and in the country districts of Styria, where they were most numerous and above all most conspicuous, did they reach 50 per cent of the votes. It must be remembered that whereas the Nazis liked to demonstrate in the streets, their opponents were of a different type of temperament and liked to stay at home. And these opponents included the Catholics, the Monarchists, the remnants of the Heimwehr, and the Socialists. With a majority system these groups combined would probably have had a majority in every constituency of the country, and even in the freest election of the world not a single Nazi would have entered the Federal Council.

In such circumstances the moral basis of the Austrian govern-

ment would have been much stronger than it actually was. Hitler could not have called Schuschnigg a "tyrant," as he did in Berchtesgaden; he could not have claimed that the Austrian government lacked all legal basis, as he did in his proclamation after the Austrian annexation. If he had been determined to use force anyway, he could have engulfed a democratic Austria as he swept away the feeble government of Schuschnigg. But he would have been faced with more moral and perhaps even with material resistance and the attitude of foreign public opinion and foreign governments might then have been more actively antagonistic.

**PROPORTIONAL REPRESENTATION AND GENERAL METAXAS.** A word on Greece. Political institutions have not meant much in this country where the order of the day has been change so much more than continuity. Nevertheless the importance of proportional representation in contributing to the breakdown of democratic government seems to be evident when we consider the results of the elections of 1936, which brought into the Parliament 15 Communists who held the balance between 142 Rightists and 143 Leftists. No clear government majority of either side was possible, and this did much to facilitate the coup d'état of General Metaxas.

**PROPORTIONAL REPRESENTATION AND DEGRELLE.** Material which points to somewhat similar conclusions is available for Poland and for the Baltic States. Further, proportional representation has done much to make government difficult in Czechoslovakia, in Switzerland, in Belgium, Holland and the Scandinavian States. Conditions are worst of all in Belgium. In this country there exists at the right the opposition of the Rexists and of the Flemish Frontists, and at the left that of the Communists. None of these groups could have obtained any seat under the majority system. Moreover, it is generally admitted that with a majority system the Liberal Party would have disappeared long ago, and that the country would have a two-party system, the Catholics and the Socialists alone fighting for power, and one of these two parties always hav-

ing a clear majority. As conditions are under proportional representation, it has often taken many weeks to form a new government, and when it is formed it is never able to give a clear lead to the coalition of parties which it represents. The result is a chronic *malaise*, from which the opposition of the extremes is bound to profit. The world economic crisis having been overcome, Degrelle has little chance to climb to power, despite the stepping-stone of proportional representation. But the unhealthy conditions created by proportional representation have given rise to many tragic conflicts which the majority system would have spared the country.

Thus the cabinet of van Zeeland, which supporters of proportional representation had often praised as a model of "party co-operation"—as if a coalition were any better if we call it cooperation—had to give way in circumstances which must have filled the Premier, who had done so much for his country, with bitterness. It took more than four weeks before the succeeding cabinet of Janson could be formed—formed on such a fragile basis that it resigned after about four months' existence which was characterized more by conflict than by constructive work. The following Premier was the Socialist leader, Spaak. When he presented himself to the Chamber in May 1938, he emphasized the plans for the reform of parliament and government which he said the government was going to introduce. He added that Belgian parliamentarism had grave defects, which had to be eliminated. Belgian government had of late been only a caricature of a democracy. He concluded by saying the aim should be an "authoritarian democracy," which would put an end to the irresponsibility of ministers and members of parliament.

"Authoritarian democracy"—such a phrase sounds ominous; it has been used by Hitler and Mussolini. Authority should be a natural concomitant of democracy—the word democracy has after all something to do with the Greek word *kratein*, which means to rule—and it should be arrived at by an organic process. How easily might that be done in Belgium if the people were once

more asked to give their government a majority, instead of sending "representatives of every ism" into Parliament "in proportion to their strength in the electorate"!

**PROPORTIONAL REPRESENTATION IN IRELAND.** Since the war Ireland has been as important for the advocates of proportional representation as Belgium was in the prewar period. When in 1918 and 1919 proportional representation was proposed in so many countries, there seemed to be no more cogent argument in its favor than that it had been applied in Belgium for two decades and had not led to a splitting up of parties or to a lack of government stability. Nowadays such an assertion could no longer be made. Instead it is emphasized that Ireland has been using proportional representation ever since 1922, and that nevertheless two parties have been dominating, with the result that the successive governments of Cosgrave and De Valera have enjoyed a considerable degree of stability and authority.

But when Ireland is upheld as an example of the beneficial effects of proportional representation some rather essential facts are forgotten. The first concerns prewar Belgium as well as Ireland. In both countries the proportional representation system adopted was not proportional; on account of the small size of the constituencies the large parties fared much better than the small ones. Thus the majority of seats which the Catholics in Belgium held before the war were won with a minority of the votes. Such results are denounced by the friends of proportional representation if they occur under a majority system, but they seem to be inconsequential if they develop under proportional representation. In Ireland Cosgrave's and De Valera's party have benefited from the lack of proportionality of the electoral system to such an extent that without this element they would not have been able to maintain their leading position. At the present time there exist no less than fifteen constituencies which elect only three members. In each of them a party which has more than half of the votes obtains two of the three seats! Thus at the elections of 1937 De Valera obtained

50 per cent of the seats with about 45 per cent of the votes, and thereupon he was charged by his opponent Cosgrave with having gerrymandered the constituencies in favor of his party. De Valera might have answered that if he had not done what he did the elections would have resulted in confusion rather than in a somewhat tolerable decision. But what is the use of proportional representation if it is necessary for us to doctor it up in order to render it innocuous?

A second essential fact about Irish proportional representation is that even with its lack of proportionality it came twice within a hair's breadth of inflicting similar troubles upon Ireland as it did upon other countries. This happened for the first time after the elections of June 1927, which had greatly reduced the strength of Cosgrave's party. To increase his troubles—Cosgrave was Premier at that time—the opposition members, who had not done so before, took their seats in the Dail. On August 16th, 71 votes were cast in favor of a vote of censure, against which the government could marshal only an equal number. The motion was defeated by the vote of the speaker, who according to the rules is charged with giving the decision in case of a tie. Cosgrave was shortly afterward able to remedy the situation by dissolving Parliament and calling new elections. But a similar mishap befell De Valera in 1937, when his party secured 69 seats, including that of the speaker, and all other parties combined secured another 69. His loss of prestige was great, all the more so since he had done what he could to prevent such a result. Soon he was defeated in the Chamber by a majority of 52 to 51. Like Cosgrave in 1927, he was able to terminate this uncertain state of affairs in the spring of 1938 by dissolving Parliament and calling new elections, which in this case gave him a clear majority over all other parties.

Third, although in both 1927 and 1938 an incipient period of confusion could be ended by new elections, the reason why this was possible was only a temporary one. On this matter let us quote what a contributor to *United Ireland*, the weekly paper of Cosgrave's party, wrote in its issue of February 2, 1935: "This country

has a scheme of Proportional Representation forced on the people by the Proportional Representation Society of England, which succeeded in inducing the British government, which drafted the Home Rule Act of 1920, to try its nostrum on the dog. It has not yet produced a multi-party system, mainly because of the acute division which has existed on the Treaty issue and which has prevented politics from developing along normal lines, the lines which were beginning to appear, for instance, before Fianna Fáil entered the Dáil." The author of this article obviously had in mind the first elections of 1927, when the interest groups were represented by 22 members of the Labour Party and 11 members of the Farmers' Party, and neither of the two great parties was able to dominate the scene. The "Treaty issue" means the relations with England which have so far overshadowed all else. These relations being of a political nature, they have tended to divide the voters into two fronts, according to whether or not they accept the Treaty. This issue was raised when in 1927 De Valera's followers took their seats in the Dail, and as a counteraction the government party was strengthened at the expense of the interest groups. Similarly the Labour Party was weakened in 1938, when De Valera dissolved Parliament after having achieved a spectacular success by his new agreement with England. But will the question of relations with England be as important in the future as it has been in the past? If not, it is probable that in spite of the lack of proportionality in Irish proportional representation the leading position of the two major parties will be destroyed, and Ireland handed over to the tender mercies of such coalition governments as Belgium is now enduring.

De Valera seems to be one of the Irish statesmen who is fearful of just this outcome. When he dissolved the Dail in 1938 he made the following statement:

Parliament has been dissolved. . . . A Government with a precarious Parliamentary majority—constantly at the mercy of group combinations in support of sectional interests—cannot do the nation's work as it should be done.

During the past six years the Government has been severely handicapped and the national interest has suffered by the fact that the Government's parliamentary position was deemed insecure. On two occasions I appealed to the people to set this right. Unfortunately, owing to the system of Proportional Representation, my appeal on these occasions proved to be ineffective. I now appeal once more.

The work that lies before the Government in office during the next five years, though of a somewhat different kind, will be of no less importance than that of the past six. Now that the ground has been cleared by the recent agreement . . . the work of national reconstruction as a whole ought to be undertaken. In the general interest a proper balance must be maintained between rival claims and opposing rights—the claims of agriculture and the manufacturing industries, for example, and the rights of the employer and the employed.

I have not referred to the chief national objective, the ending of partition, but can anyone doubt that this objective can be reached more readily by a strong Government than by a weak one?

De Valera refers in unmistakable terms to the fact that in future the government will be concerned with economic rather than political problems, and he is obviously conscious of the need of putting the common interest above group interests in these matters. But will his warning of the possible effects of proportional representation have practical consequences? When the present writer visited Ireland in the summer of 1937, a prominent member of Cosgrave's party told him, when asked about the effects of the Irish electoral system, that proportional representation was as bad as it could be, but that on account of the vested interests which it had developed it was impossible to abolish it. It is indeed one of the gravest features of proportional representation that those parties and those deputies who are indebted to it for their success will naturally refuse to vote for its abolition and will often be strong enough to prevent anything from being done in this direction. At the present time, however, a combination of fortunate circumstances has for once given the party in power in Ireland a commanding majority. This provides De Valera with a chance to proceed with the abolition of proportional representa-

tion, if he so desires. No one knows whether this chance will ever present itself again, if allowed to pass by this time.

**PROPORTIONAL REPRESENTATION IN NORTHERN IRELAND.** Whenever the Irish experience with proportional representation is mentioned, attention is drawn to Northern Ireland, where proportional representation was introduced by the Government of Ireland Act of 1920 and abolished by the Northern Irish Parliament in 1929. It is said that the grievances which minorities have against the Northern Irish government have been aggravated by the abolition of proportional representation, for the opposition has been deprived of its "fair representation."

To this it must first be answered that the losses which the Nationalist majority has suffered through the abolition of proportional representation are inconsequential. They elected, in a House of 52 members, 12 members under the two proportional representation elections, and 11 in the following two elections held under the majority system. In 1938, to be sure, the Nationalists obtained only 8 seats, but the reason was that in three constituencies where they had a safe majority they boycotted the elections, thereby emphasizing how little they appreciated "fair representation" in a parliament where they were bound to be a permanent minority anyway.

The losses sustained by the Nationalists have been more severe in local government; the constituencies for the City Council of Derry and for the County Councils in Fermanagh and Tyrone have been arranged in such a way that a Nationalist majority has been transformed into a minority. But should we repeat the tragic error of the German Socialists, who before the war demanded proportional representation to protect themselves against the inequality of constituencies, not realizing that the remedy for unfair apportionment is a fair apportionment and not proportional representation? A revision of the constituencies in Northern Ireland can be demanded in the name of honesty and justice, but if the demand for proportional representation is renewed, then a splen-

did chance is given to the Unionist leaders in Northern Ireland to dodge the issue by opening fire once more on proportional representation. They have proved in the past that they can do this in a very effective way. For instance Lord Craigavon, the Northern Irish premier, when defending the majority system in 1927, quoted Lord Curzon as follows: "During the last three or four years I have been confronted with the phenomenon of a series of unstable Italian governments, seldom lasting for more than a few months, and depriving their representatives at Allied Conferences of that power which derives from stability of institutions. I think I have put the same question to every succeeding Italian Minister, be it Prime Minister or Foreign Minister, with whom I happened to be associated, and on every occasion I have had the same reply: 'The weakness of our institutions and the instability of our Governments is due to Proportional Representation and Proportional Representation alone.' "

This quotation sets forth but one of the arguments which the Northern Irish Unionists have used against proportional representation; there are many others, and to challenge them by the type of argument usually advanced by the supporters of proportional representation is a waste of time. Much more could be accomplished by pointing to gerrymandering; and political science would urge in the case of Northern Ireland, as in other like cases, that rather than doctoring an existing evil in minor points the best procedure is to abolish it. Let the 6 counties of the northeast of Ireland join the 26 others, which would allow them to retain the full measure of their present self-government. Nothing would happen to the Protestants in a united Ireland. On the contrary, they would wield the balance of power between the two major parties, forcing them to comply with all of their reasonable demands. Nor would anything happen to the friends of cooperation with England, because they too would be strong enough to impose their will on the others—and all grievances against England removed, the others would not mind. This is the real solution of the problem of Irish partition; none other will do.

**UNITED STATES: MUNICIPAL GOVERNMENT.** In the United States the agitation for proportional representation has in the main been centered in the great cities; the municipal reform movement has seen in it an electoral system with the help of which it would more easily be able to break up the machine rule which is so firmly entrenched in certain urban areas. Machine rule is so much aided by the majority system because the national party line-up has been transferred to municipal elections, and whereas over the nation as a whole votes shift enough to make power swing from one party to the other, many cities have been permanently in the hands of one political group. In such cities the minority has never had the hope of becoming the majority, and often its leaders have been willing to make a deal with the ruling party, obtaining part of the spoils in return for the promise to refrain from active opposition. Even where there has existed a will to fulfil the democratic function of opposition and control, it has often been impossible, because the ward system has permitted the dominating party to keep the upper hand and prevent the minority from obtaining a sufficient number of seats.

It should be obvious, however, that the greatest evils in municipal government have not been created by the majority system and that they cannot be automatically abolished by adopting proportional representation. Municipal government is often so objectionable because it is corrupt; it is corrupt because it is machine government, and machine government is possible because there is material upon which the machines can feed. If all jobs which are not of a policy-setting nature were effectively brought under civil service, if all judges and minor officials were appointed instead of elected, then machines would be able neither to hand out a sufficient amount of patronage nor to influence the courts. Few people would care for a boss who has no jobs to distribute and who is unable to give protection in the courts.

Moreover, municipal reform movements, if they really want the control of a city, need a majority of the votes under proportional representation even more than under the majority system,

which in a triangular contest may sweep them into power on a mere plurality. Thus they could best be helped by elections on the block system, the wards being abolished and elections held as a city-wide contest. The more desirable features of the ward system could be retained by requiring that the lists presented must include a resident candidate for each district, and the city could be divided into such districts for this purpose. Further, a certain percentage of the seats could be guaranteed to the minority, making sure that there will be an efficient opposition in the city council.

Within this general framework various arrangements are possible which would meet all reasonable objections. For example, a concession could be made to the needs of reform movements by adopting the single transferable vote for the purpose of determining who is elected both on the majority and on the minority list, though of course the need for a clear decision would exclude the possibility of voting for candidates of more than one list. Reformers have often emphasized that their "amateur organization" can be victorious only if they can put on their ticket people belonging to differing groups and differing organizations, telling each of their candidates to get as many votes behind himself as possible but to ask his supporters to give their second and third choices to other men on the ticket. This could easily be done in the proposed set-up, which would then give the reformers all they may want and would further contain all the advantages of the majority system and avoid the drawbacks of proportional representation.

Actually, in American city government proportional representation has been applied in the traditional form of the single transferable vote, and its record is not as enviable as we are often told. In Ashtabula it encouraged racial division and was abandoned; in Cleveland the situation was not much different. The experience of Wheeling and Toledo has not so far been spectacular in either one sense or the other. In Cincinnati the great improvement in city government is due to the fact that the charter group has had

a majority of the votes cast. Obviously in these circumstances the majority system, in particular in the form outlined above, would have done at least as well. In 1936, however, the charter group obtained four seats in the Council, their opponents also four, and the balance of power was held by the Rev. Mr. Bigelow, elected by the Single Taxers and later returned to Congress by the Democrats. Before the reform administration could continue, a deal had to be made with Bigelow. In such a situation the only difference between the majority system and proportional representation is that the former, in particular if there are two ballots, leaves it to the voter to make the deal—for which it is so often decried—whereas proportional representation hands the decision over to the city's "representatives," which as mentioned before is certainly not democratic. Later elections in Cincinnati may weaken the charter group even more, and it would then be obvious that proportional representation cannot work the miracles which are often ascribed to it.

There remains the strange story of proportional representation in New York City. It is hard to understand why the Fusionists developed their sympathies for proportional representation. In 1933 La Guardia was elected with a mere plurality of the votes cast. If there had been a proportional representation system, and if the Mayor had been elected by the Council, as the supporters of proportional representation demand, then the two democratic factions would have had a majority in the Council and the candidate of Fusion would not have been elected. But in 1936 proportional representation was put on the ballot, together with the new charter, and obtained an unexpected majority. The case *for* it was clearly and ably presented; the case *against* it was left to Tammany, and since, as the *New York Times* put it, this organization is not accustomed to reasoning, almost nothing was presented to the public except an able statement by former Governor Smith, which came too late. It is not unfair to say that most of those who voted for proportional representation did not know much about it; Tammany was against it, and that was for hun-

dreds of thousands of voters reason enough to be *for* it. They overlooked the fact that Tammany is about as much interested in the majority system as a man sentenced to die is interested in an improvement of the guillotine.

In 1937 the first Council under the new charter was elected. It might have been chosen under the arrangement mentioned above, the whole city forming one constituency. Then—on a day when Fusion swept the city for all offices where the majority system gave it a chance to fight for a clear decision—the majority in the Council would certainly have been Fusion's. But it was left to proportional representation to "represent the will of the people" in the new Council. It gave 13 seats to Tammany and 13 to the Fusionists and their two Democratic friends. Where, under these conditions, was the will of the people? Perhaps with the President of the Council, who cast the deciding vote in case of a tie, and whom the Fusionists once more owed to the effects of the majority system.

But if proportional representation creates majorities it makes them so weak that the accident of the presence or absence of one member can be of decisive importance. So it has happened repeatedly in the history of proportional representation, as for instance in Ireland in 1927, occasionally in Denmark, and in the Austrian National Council during the last troubled years of its existence, and now again in New York. The difficulty occurred when Quill, one of the Fusionists, went to Ireland to be married. When he returned he quoted the Lord's command that it is not good for man to live alone, believing it surely to absolve him. But the fact remained that in the meantime his friends had missed his vote. The new Council had been praised for its deliberative character, but "deliberation," with a goodly number of acrimonious remarks, turned upon the question of whether or not thirteen to twelve constituted a majority. Before the elections the friends of proportional representation had told the voters that once the new Council had finished its task of deliberation it would be all the more able to make a good decision. But instead of one decision

two were made, which was too "good" after all, and agreement was reached only on the advisability of letting the courts pick the one which was to prevail.

Even after this the Councilmen did not turn to ordinary business. They gave their attention to Quinn, a Tammany member, and pondered the problem of whether the number of milk bottles received and the amount of laundry done for him at a certain address, together with his claim of having slept there in his underwear, justified the assumption that he was a bona fide resident of the district which elected him. The intention was to eliminate him from the Council, thus correcting the will of the people, and to produce a better majority than proportional representation had provided. But then the other side leveled their guns on unlucky Quill, unmindful that by reason of his new marriage he had received too much public attention anyway. The same type of questions were asked, the same type of witnesses heard, and the same type of report submitted. When the Council had reviewed the reports both culprits were deemed worthy of continuing to sit as members, and the time and the money which had been spent on proving the contrary had been wasted. New York can be happy that for its government it does not have to rely on this proportional representation Council, and that in its Mayor and in its Board of Estimates the majority system has given it an authority which is able to deliberate as well as to decide.

The question arises as to what is the proper method of dealing with the agitation for proportional representation. The best procedure, of course, in New York as elsewhere, would have been an adequate explanation of the merits of the majority system when its abolition was first suggested. If that had been done there is every reason to assume that in New York proportional representation would have been defeated. After all, the overwhelming majority of those who voted for proportional representation were convinced believers in democracy, and if it had been explained to them that the only method to make the will of the people prevail in a democracy is the rule of the majority, most of them would

have voted against the adoption of an electoral system which has wrought demonstrable havoc to the cause of democracy in so many countries.

In this connection it should be mentioned incidentally that the favorite argument advanced for proportional representation in New York is as fallacious as are all the others. It has been said that under a majority system only a part of the vote is "effective," because so many votes are cast for candidates who are not elected. It is added that the voters who supported defeated candidates are deprived of their birthright as citizens. The opposite is true. What the voter wants to do is to make a clear decision on the policy to be pursued by the particular legislative body which is to be elected. Such a decision, in the long run at least, can be made effectively only with the help of the majority system. Proportional representation splits up the vote on numerous candidates and the "isms" which they "represent"; it fails to give the voter the chance to decide as to the character of the body whose members he elects. Therefore it is proportional representation, not the majority system, which deprives the voter of his birthright.

But what should be done after proportional representation has been adopted? The 1938 Constitutional Convention of the State of New York has decided in favor of proposing a constitutional ban on proportional representation, to apply to municipal as well as to state elections. This has greatly antagonized the friends of proportional representation in New York City, who have declared that the proposed amendment violates the most elementary principles of Home Rule. It is overlooked that proportional representation can easily develop into the very denial of Home Rule. After all, this is what actually happened during the 1937 elections for the New York City Council, when the people voted in favor of Fusion and proportional representation gave them a Council half Fusion and half Tammany. The decision as to the character of the new Council was taken out of the hands of the voters, and in the last resort had to be left to the courts. Is that a desirable kind of Home Rule?

Further, it must be borne in mind that we cannot apply the "trial and error" method to a matter like proportional representation. The trial can be made, but when people realize that an error has been committed it may be difficult, if not impossible, to rectify it. In New York as well as everywhere else proportional representation has quickly developed vested interests, which oppose its abolition by any and all means. A coalition of minorities, consisting of Republicans, dissident Democrats, the American Labor Party, the Progressives, the Socialists and the Communists defends proportional representation. To all of these groups proportional representation gives greater chances of electing councilmen than each one of them alone would have under the majority system. Therefore they are in favor of proportional representation, and are reluctant to consider arguments against this electoral system. It is very strange to see the way in which most of these groups put their immediate interests above their long-run interests. The New York Republicans, for example, should know that proportional representation, if applied on a larger scale, would destroy the two-party system, from which their own party so greatly benefits. The leaders of the American Labor Party might well ponder whether American labor is interested in an electoral system which has helped the enemies of labor so greatly in countries like Italy and Germany.

There exists nowadays, however, a general tendency to neglect long-run interests when they conflict with the immediate interests of the day. The prevailing mood seems to be, as Keynes has put it, "In the long run we are all dead." Thus it is doubtful whether there is much of a chance to get proportional representation in New York repealed by the voters of the city. The various minority groups have created an atmosphere in which everyone who objects to proportional representation is likely to be considered morally bad. In such circumstances one feels willing to condone the action of the Constitutional Convention of New York in proposing a ban on proportional representation. Future generations of voters in New York City would have reason to be grateful to the constitu-

tional provision which, by overriding one decision made by the electorate in New York, has made sure that their city recovered with the majority system the only instrument for the making of effective decisions in the future.<sup>1</sup>

**UNITED STATES: THE NATION.** Having been applied to a growing number of municipalities proportional representation is now recommended for state and national elections. Many of those who support it for city government would prefer to confine it to this use. They wish to weaken the effects of the majority system where they have proved too strong, not to destroy it as the factor shaping the basic elements of the political line-up of the country. They are unable, however, to resist the popular appeal of the argument that if proportional representation is inherently good and has proved so in municipal elections, there is no reason to withhold its benefits from state and nation. But if it were applied on a large scale proportional representation would soon destroy the vigor of American democracy.

Let us remember that this is the largest country in which the democratic form of government has ever been tried. The larger a country, the greater the factors making for diversity. In the United States economic interests within the various sections are widely different. Moreover, the immigration of peoples of many nations has created additional problems which few other countries know.

In overcoming all these forces which make for differentiation the majority has served the country well. The various groups of immigrants, for instance, have realized that the existing electoral system gives them little chance to form parties of their own. The two-party system has been almost inescapable; and the problem of assimilation has been solved by each party doing its best to

<sup>1</sup> On the other hand, one cannot but regret that the New York Constitutional Convention adopted the ban on proportional representation after only a brief debate. An issue as grave as this requires that ample opportunity be given to the friends of the banned electoral system to present their views; if the subject had been fully discussed many of those who, in given circumstances, were to be forced to abandon proportional representation might have done so voluntarily.

attract into its ranks the newcomers to these shores and to make them feel at home there as well as in the country which these two parties were governing. At the present time the assimilation of most of the immigrants is a matter of the past. But the Negro problem remains. Under a majority system it can be left to take care of itself in the traditional way. Under proportional representation, however, the temptation to form a colored party would be too great to be resisted, and a reaction in the form of a revival of the Ku Klux Klan would then be inevitable.

There exist other lines of division in addition to that of race. If an American proportional representation system should be as "proportional" as the German and allow a candidate to be elected with three per cent of the votes cast, then the Socialist and Communist parties would soon send their own men to Congress. Further, there now exists the more vigorous element of the American Labor Party. In the past it has either had to compromise and ally itself with another party, as it has done in New York, or go down to defeat, as it did in Detroit and Seattle. Proportional representation would give it its "New Freedom," the use of which could not but lead further away from the path of national unity.

Though the exact numerical results which proportional representation would lead to cannot be predicted, there would seem to be no uncertainty about the order of magnitude. Let us recall that in 1924 La Follette polled 16.2 per cent of the vote; he did so without standing a chance of being elected, his ticket not even being on the ballot in all states, and it is safe to assume that with proportional representation his popular vote would have been higher. The majority system gave him only the 13 electors of Wisconsin, amounting to 2.4 per cent of the total. The result was that the day after the elections his idea of enlarging the progressive movement into a permanent third party was dead. (By way of comparison let it be added that in September 1930 Hitler obtained his great electoral success with 18.3 per cent of the vote. Proportional representation gave him a corresponding number of seats in the Reichstag; the world economic crisis and the cooperation

of the Communists did the rest, and in little more than two years he was the master of Germany.) There is but little doubt that after the adoption of a proportional representation system for national elections the various new groups which would then arise would poll a considerably higher percentage of the popular vote than La Follette did, and that soon the two-party system would be gone for good, no party ever again obtaining a majority in the country.

It has been proposed to apply proportional representation to presidential elections by distributing the electoral vote of a state among the various candidates in proportion to the number of votes obtained by them. The result would soon be that a candidate could no longer have a majority in the electoral college. This would mean that the President would no longer be directly elected by the people. The House of Representatives would then have to select one of the three candidates with the largest popular vote. The election would have to be decided by a compromise among several parties in the House, and the result would probably be as in Italy at the time of Facta—some party would object to anyone who had a real authority, and the weakest candidate available would be elected. He would have to face a Congress composed of a number of parties which would all be as rigid and as proud of their "world outlook" as the parties were in Italy and Germany. It is hard to see how anything short of a permanent deadlock would develop under such conditions.

When in 1919 the Italian Chamber discussed the adoption of proportional representation the deputy Peano remarked that it was the most important measure which could be proposed to a parliament. By the same token it can be said that none of the constitutional amendments ever proposed or considered in the United States could compare in importance with the introduction of proportional representation into our national government. The meaning of democratic institutions depends upon the political parties that work them. The parties which have come to power under the majority system in a history of 150 years, no matter how deficient they may have been from other points of view, have

all worked the machine of democracy in a democratic spirit. On the other hand, Walter Bagehot has told us what kind of parties proportional representation would bring into the British Parliament: "characteristic, and therefore immoderate, representatives for every 'ism' in all England." Of "isms" there exist now on this side of the Atlantic as many as existed in England in Bagehot's time. If it were made the task of Congress to represent them in proportion to their numbers in the country, there is little reason to expect that the machinery of democracy would work as it has in the past. The various parties would affront one another with their different "world outlooks" and parliamentary paralysis might result as it did in Italy and Germany. Proportional representation by bringing the "isms" into Congress—and thereby developing them in the country—would be the Trojan horse carrying the forces of destruction into the citadel of democracy.

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# INTERNATIONAL TRADE UNDER TOTALITARIAN GOVERNMENTS

BY ARTHUR FEILER

## I

**T**HREE is today no definite, indispensable interdependence between a purely political form of government and its international economic policy. Often enough, in several countries of America and Europe, certain varieties of democracy have been displaced by certain varieties of dictatorship without any alteration of the methods or the aims of their foreign trade; the changes of government were solely changes of the domestic political domination. And this holds true even for fascism in its simpler stages. Mussolini's Italy up to the Ethiopian war, and Schuschnigg's Catholic fascism in Austria up to its end, behaved in their international economic relations exactly as they would have without those rulers, and as did the rest of the world. The rest of the world, on the other hand, has in no way been prevented by democracy from doing its full part in developing that economic nationalism which to an ever growing extent characterizes the postwar decades.

The world economic crisis since 1929 has been the last incentive to that economic nationalism. Confronted with the necessity of being active for the acceleration and intensification of recovery, but finding no international authority for satisfying this urgent need on an international scale, the national states have had to attack this problem within their national boundaries. The result has been that very often the means employed, while aimed at supporting domestic recovery, have in fact led at the same time to a still further sharpening of the international disturbance. As it is, nearly all the methods of international economic policy<sup>1</sup> which have become so important during the last ten years are, each of

<sup>1</sup> Cf. Arthur Feiler, "Current Tendencies in Commercial Policy" in *American Economic Review, Supplement*, vol. 27, no. 1 (March 1937).

them, to be found in a great many states of highly divergent political denominations. Deliberate currency devaluations, the piling up of tariff walls to skyscraping heights, quantitative restrictions by quotas and licenses, barter trade, regional agreements, exchange controls and bilateral clearings, limitations of the migrations of men and capital—none of them is restricted to one particular political system, nor are the underlying ideas of autarchization and isolation.

Nevertheless, the situation is different with regard to the totalitarian states. For they do not represent that purely political form of government mentioned at the beginning. To the other states, interference in the economic and social spheres, growing as it is everywhere by necessity, is only a matter of expediency. To the totalitarian states it is a matter of principle. More than that, their totalitarianism consists exactly in a totalitarian interference, in the social-economic as well as in the spiritual fields; this is what makes them totalitarian. To them, the national economy and every individual within it are only instruments for the higher purpose of the state or the community. In fact, they have so completely subjugated the whole economy to these higher aims of the collectivity that in comparison with these aims economic considerations as such, and the private economic desires of the citizens and their present-day standard of living, play a wholly insignificant role.

The totalitarian states are not materialists but "idealists," or rather they are fanatical adherents of a political creed with politically established ends, to which every individual economic activity is subordinated, while every economic policy—national and international—is only an integral part of the entire, totalitarian policy. When they employ the methods and results of economic nationalism they do so for the sake of nationalism (or of the deified collectivity, whatever they like to call it) and in disregard of the demands of economics. If they utilize the new means of international economic policy, applied in other countries, the outcome is different because of their totalitarianism which transforms quantity into quality.

This has become exceedingly clear in National Socialist Germany on the one hand, and in the Soviet Union on the other. The formulation of their aims is decidedly different: communism here, nationalism there—race and blood and soil, armament, war preparedness, power. But in spite of all the divergencies of their ideologies and their ultimate goals, their present practices have developed convergently to such a degree that "National Socialism must be understood as truly being the present-day German version of present-day Russian Bolshevism."<sup>1</sup> This identity is to be found also in their dealings with international economic relations. And the results are important for them as well as for others.

## II

It is often argued that the totalitarian states must tend toward as complete as possible an isolation, that they must try to sever themselves as much as they can from the outer world, because their economies are "planned economies" and any intercourse with others would threaten to disturb their "plans." It is interesting that such ideas are much less to be found in the totalitarian states themselves than among isolationists elsewhere who cannot rid themselves of the nightmare of "dependence" as a result of foreign trade.<sup>2</sup> In fact, such an argumentation is unrealistic; it overestimates the rigidity of the plan and it underestimates the means of power of a dictatorial regime. Of course, falling prices for exported gasoline diminish the amount of foreign exchange at the disposal of the Soviet Union; rising prices of imported raw materials make National Socialism's attempt at stabilizing the domestic price level more difficult; an international change in the business trend changes a great many items in the totalitarian as in

<sup>1</sup> Max Ascoli and Arthur Feiler, *Fascism for Whom?* (New York 1938) p. 269.

<sup>2</sup> See for instance George N. Peek, *Why Quit Our Own?* (New York 1936) p. 347: "If any integral part of our economy depends upon goods imported from abroad, then to that extent our whole economy becomes dependent on the pleasure of the foreign producers. If any integral part of our economy depends upon exporting goods, then equally our whole economy hangs on the will of the foreign buyers." As though there were no mutual interests and necessities involved!

other economies. But similar and possibly even much greater disturbances are continually arising from domestic developments contrary to the plan: from the weather that influences the outcome of the harvest, from all kinds of incongruities in the production of materials and finished goods, in the exchange and transportation of commodities, in the availability of capital or labor.

The plan is never more than a preliminary budget whose real figures at the end of the period vary from the estimates even more than does the budget of a state or of a large private corporation. This has been abundantly proved by every plan-report of the Soviet Union. And in National Socialist Germany, if one please to call hers a planned economy at all, the situation is exactly the same. In both these totalitarian states the function of the plans is only to determine the goals of the economic policy in accordance with the general policy; the plan really *is* the economic policy. But determining the goals is all that is needed. The necessary balance, national and international, is achieved through these states' dictatorial power, which allows them to impose the necessary sacrifices upon their peoples, sacrifices and if need be continuously increasing sacrifices, restricting private consumption in adaptation to the scanty amount of goods available for that consumption.

What is really decisive for a planned—or a commandeered—economy, is not isolation but regulation. The more totalitarian the commandeering, the more must efforts be focused on the territory in which it is done. Foreign economic relations are not to be prevented but they too must be regulated, totally commandeered. Since nothing is free, there can be no free trade with others, even in the broadest sense of the word. A system which is totally illiberal at home cannot be liberal abroad. But while this is the necessary logical conclusion—a really intrinsic necessity for totalitarianism—it has been supported by two historical circumstances which in themselves are not necessarily connected with the principle of totalitarianism: on the one hand, the actual economic conditions prevailing when the totalitarian governments assumed

power in Russia and in Germany; on the other hand, their common aim of autarchization, resulting from their political and social purposes.

In fact, both these totalitarian systems, identical even in this respect, fervently deny again and again that they desire autarchy. "It should be emphasized as forcefully as possible," writes a Soviet author,<sup>1</sup> "that the Soviet Union has never been in favor of autarchy. In my personal opinion, this theory can be advanced only by people insufficiently familiar with the laws of world-economy." And while this is said about a country which, "as a result of the rapid growth of the national economy, now exports only 3 or 4 per cent of its output,"<sup>2</sup> the same point is stressed by many German writers concerning their own country. There, "in spite of the advanced adaptation nearly one half of our consumption of industrial raw materials and about one fifth of our demand for food is even at present furnished from abroad. This dependence on foreign countries will be increased by the incorporation of Austria, while many a political customer of an independent Austria will probably stay away."<sup>3</sup> Such utterances may be instructive for dogmatic isolationists in other countries. They clearly indicate that even the two totalitarian states are, very undogmatically, desirous of maintaining such international economic interrelations as are in accordance with their needs. They are certainly not aiming at a 100 per cent autarchy.

But granting this, all these denials of autarchy mean only quarreling about words. Actually, throughout the world no debate is so often and so successfully darkened by ambiguous words and half-understood slogans and manifest lies as that on questions of foreign trade, probably because of their easy appeal to "national" feelings. The true facts are obvious and known to everyone. The Soviet Union has been striving from the beginning for a rapid

<sup>1</sup> Ivan V. Boyeff in *The Soviet Union and World Problems*, ed. by Samuel N. Harper (Chicago 1935) p. 41.

<sup>2</sup> *Ibid.*, p. 38.

<sup>3</sup> *Frankfurter Zeitung*, June 19, 1938.

industrialization. National Socialist Germany is as rapidly building up the industrial production of as many raw materials as possible, and at the same time trying to expand her food production by all possible means of support. Both countries have undertaken to produce at home as large a part as possible of what they formerly had to import from abroad. This identity is to be traced even to minute details. Germany aims at producing artificial rubber (the highly advertised *Buna*), for the time being at very high costs of production; the Soviet Union boasts with no less pride of having been "the first country in the world to begin the mass production of synthetic rubber, the mastery of which process represents a major victory."<sup>1</sup> But the identity in principles is even more important. The aim in the Soviet Union has been to have a greater number of industrial workers as supposed adherents of the system and, besides, greater military power. The aim in Germany has been to fight unemployment and also to have greater military power, armament, war preparedness. It is this common aim at autarchization—without excluding international intercourse for the remaining unsatisfied needs—which characterizes the foreign trade policy of the two totalitarian states.

Finally, as identical as the aims are the measures employed, and especially the main measure which, through its use by these two totalitarian states, has for the first time become an important feature of world economics: a foreign trade monopoly in the hands of the state.

This does not mean that these states have given up the additional use of import duties. In fact even the Soviet Union has a high custom tariff, although it might appear that her foreign trade monopoly is itself sufficiently totalitarian. There is a concession to human psychology in using high prices to make the desire for imports less urgent, instead of flatly prohibiting them by force; thus the state will not so often be compelled to resort to open prohibitions.

<sup>1</sup> State Planning Commission of the U.S.S.R., *The Second Five Year Plan* (New York) p. xxviii.

In National Socialist Germany the situation is still more complicated because there the foreign trade monopoly is only *de facto*, not *de jure*. It is merely the result of Germany's management of foreign exchanges and is thus only an import, not an export monopoly. The private exporter may export as much as he can, under the handicap of export prohibitions for commodities needed at home; he has only to deliver the foreign exchange. The private importer too may still function; his need for the foreign exchange apportioned by the administration suffices for his complete regulation. Consequently there is in Germany no official organization for the monopoly of foreign trade, no authority openly decorated with this title. And the result is that many people in Germany still do not even realize its existence. They still believe that the present situation is only the outcome of the crisis of 1931, when by the large-scale withdrawal of foreign credits, resulting in a capital outflow of 4.8 billion marks in that one year, Germany was compelled to a general moratorium on her foreign debts. They still maintain the hope of a return to what they still call "normalcy," and it may be some time before they eventually recognize that the monopolistic regulation of foreign trade is itself "normal" (because it is indispensable) for National Socialism's totalitarianism.

In the Soviet Union such a misinterpretation has long been impossible. There the state foreign trade monopoly is the necessary complement of the nationalization of industry. If the state owns all plants for the production of manufactured goods and has in addition, through the collectivization of the peasants, complete control over the produce of agriculture, then there is quite obviously no place for private foreign trade. Lenin certainly foresaw this from the beginning. But when the Soviet government's decree on the nationalization of foreign trade was promulgated, on April 27, 1918, even Lenin used another argumentation. At that time, writes Boyeff,<sup>1</sup> "the volume of industrial production in Soviet Russia amounted to only about one-fifth of that of the year

<sup>1</sup> *Op. cit.*, p. 26.

1913 for the same area of the Russian Empire and to only 4 or 5 per cent of the output recorded for the Soviet Union in 1934. Taking into account this situation, Lenin stated very definitely that 'the people of the Soviet Republic are absolutely not in a condition to restore its industry, to make Russia an industrial country, without protecting it, not by means of a tariff policy, but solely through a monopoly of foreign trade.' Consequently the first task imposed on the monopoly of foreign trade was the defense of the young developing Soviet national economy from economic attacks of the powerful, industrially developed countries." This—like the corresponding development in National Socialist Germany—sounds like a merely transitional measure for an emergency situation. In both totalitarian systems the definiteness and the great possibilities of the foreign trade monopoly as one of the cornerstones of the systems themselves have only slowly and gradually been recognized by the public.

### III

The advantages which the totalitarian regimes derive from totalitarian control of their foreign economic relations are indeed of highest importance. They are political advantages, by no means identical with the immediate material welfare of the peoples but on the contrary indicating the predominance of the political over the economic issues in the totalitarian states. The foreign trade monopolies make the states' domination over domestic life complete and unevadable. They also subjugate foreign relations to the aims of this domination. They are a means of power in the hands of the totalitarian regimes, and they are utilized to increase power, nationally and internationally.

First of all, the totalitarian governments can by this means steer the flow of commodities to and from their countries. They live under the hard pressure of scarcity because they use a disproportionate share of the social product for their politically determined collective goals—for industrialization in the Soviet Union, for armament in Germany. This makes them easily understand that

imports are the primary purpose of foreign trade while exports are to furnish the means of payment for obtaining these imports. Consequently they endeavor to import only such commodities as they really need for the achievement of their plans, instead of luxury goods for private domestic consumption, and in their particular situation even butter may be considered a luxury. Likewise they export only such goods as they can spare without damaging their plans.

And this refers not only to the kind and the amount of exports but also to their usage. For instance, the government can restrict (as in the case of Germany) or totally prevent (as in the Soviet Union) the use of exports for tourist expenditures abroad, in this way locking up the peoples personally and spiritually from the outer world. Or the governments do not allow the use of exports (or of the foreign exchange obtained by them) for the flight of capital, and are thus able to imprison domestic capital at home. It is only for additional thoroughness that they threaten with cruel punishment, even with decapitation, anyone who attempts to break through that barrier. But if they have clearing agreements with other countries they may utilize these foreign governments as their executioners. A German merchant who has money due him from exports to such a country is not able to collect these debts after emigrating from Germany; he is prevented from doing so not only by German law but also by the foreign government, which according to the clearing agreement can allow him to be paid only in German Reichsmark within Germany.

This leads to the further point that the foreign trade monopolies provide the totalitarian governments with a general domination over foreign credits and debts. The Soviet Union has so far found it to her advantage to be a reliable debtor who punctually fulfills his obligations. Therefore after having repaid her German credits she was able in July 1936 to contract an English credit of 10 million pounds sterling at 5½ per cent. But at that time she made it very clear that she was willing to utilize this and other foreign credits only upon condition that she could buy with them

the very best achievements of western technology at convenient prices and terms of delivery, not goods regarded as superfluous for the Soviet Union which the other countries would like to get rid of. Germany, on the other hand, by her management of foreign exchange, can have her way with her foreign creditors. She can contract compulsory loans abroad by not allotting the foreign exchange for imported goods—as long as other countries are ready to sell on such conditions. She can demand the continual renewal of the standstill agreements of 1931 and decide how, and with how great a loss, those frozen credits may gradually be rebought. She can decide how to deal with the loans of the Reich and its subdivisions which were previously contracted abroad, how much of the interest and the amortization payments shall or shall not be made—and so also with the Austrian loans.

Finally, the foreign trade monopolies administered by the totalitarian governments may be employed for purely political aims. For these monopolies can decide not only which goods are to be imported and how much of them, and which goods are to be exported and at what prices, but also the geographical distribution of these imports and exports (and also of the invisible items of their international balances). The Soviet Union in 1937 sharply reduced her purchases in Germany as a retaliation for National Socialist ideological attacks—a boycott which could be achieved by one stroke of the pen, much more easily and much more thoroughly than a private boycott could be effected by millions of private unorganized buyers. This is one instance of the political usefulness of such a monopoly. But National Socialist Germany has afforded other and even more impressive instances of such a political application. She has deliberately concentrated her imports on certain southeast European countries, buying in 1937 the following proportions of their total exports:<sup>1</sup> 43.1 per cent in Bulgaria, 30.5 per cent in Greece, 24.1 per cent in Hungary, 21.7 per cent in Jugoslavia, and 20.0 per cent in Roumania. She has by this

<sup>1</sup> Figures quoted from the report of the Reichskreditgesellschaft for the first six months of 1938, p. 87.

means induced these countries to concentrate their own buying on her: respectively 54.8, 27.1, 26.2, 32.4 and 28.7 per cent of their total imports in 1937 came from Germany. By these intensified economic interrelations she has greatly increased her political predominance in that part of the world—which was her purpose.

Aside from these direct consequences the totalitarian governments derive two other important results from their foreign trade policies, both of them fitting equally into their aims: by the foreign trade monopolies their currency systems and their price systems are separated from the outer world. Economic connections with other countries may be large or small, important or insignificant, but in any case these connections will not disturb the totalitarian governments in their complete commandeering of the economic life of their countries according to their superior goals—will not, at least, as long as the political dictatorships are strong enough to impose these goals upon their peoples and to exact from them the necessary sacrifices.

Both the Soviet Union and National Socialist Germany have forbidden the export of their banknotes. This is symbolic. Quotations of their currencies on foreign stock exchanges, if they are maintained at all, are purely fictitious. In fact, both these currencies are no longer negotiable and are no longer usable abroad; they are restricted to domestic circulation. This situation is quite clear with regard to the Soviet Union: for all her foreign relations she uses foreign currencies. Germany employs an apparently more complicated system of a double currency, using at home allegedly non-devaluated Reichsmark and abroad the all the more devaluated blocked marks (registered marks, scrips, aski marks, tourist marks, emigrant marks). But even in the latter the value does not correspond to any normal interrelation with other currencies. It depends entirely on the restricted usage permitted by the National Socialist government to these otherwise irredeemable frozen debts. No longer does the value of these currencies in relation to that of other currencies reflect their real purchasing power. There is no such relation to others. With regard to the mark and the ruble

the theory of purchasing power parity has been made invalid by the dictatorial command of the totalitarian states.

The separation of their price levels is combined with this separation of their currencies. Germany has too high a domestic price level in relation to other countries because she has so far not followed their example of open devaluation. Consequently, if she wishes to export, as she must, she has to sell abroad at lower prices than at home. She does so to some extent at the expense of her foreign creditors and her emigrants, whose sales of their blocked marks are utilized to cheapen the export prices of German goods. For the rest she avowedly subsidizes exports by means of a levy on German industry. The two methods combined are a substitute for the currency devaluations of the other countries. But it happens that they have some additional advantages. The depreciation of foreign credits (as well as of the value of the emigrants' possessions) is in this way greater than it would be by a simple devaluation of the mark. And the export subsidies too can be more differentiated, both with regard to the industries which have to pay them and to the exported commodities for which they are paid: in both relations they can be adapted to the needs and possibilities of the special case.

This flexibility of totalitarianism becomes especially evident in the Soviet Union. For the Soviet Union, through her communism, is not only the administrator of the foreign trade monopoly but is also, herself, the seller and the buyer of the largest part of the trade. There the separation between domestic and foreign prices is therefore even more outspoken. The Soviet Union can export with losses: she can either take losses on *some* export goods, and then compensate these losses by gains on others, as is done everywhere by great private capitalistic enterprises; or, if necessary for obtaining imports, she can take losses on *all* export goods, in which case the losses are either added to the foreign price of the imports or are shifted to the budget, which in the Soviet Union comprehends not only state finances but the economy as a whole. But the Soviet Union, if she chooses, can also do the opposite. She can sell

at home at arbitrarily low prices, while charging abroad what the traffic can bear. If the products are state produce the budget may again be the balancing agent. But if they are privately produced commodities—agricultural goods—then even a three-price system is possible: the world market price for the exports, but arbitrarily fixed prices paid to the producers and charged to the consumers.

Various versions of such methods are to be found also in the German system. The state as monopolist of foreign trade can employ on a gigantic scale the two-price system which had long been practiced by the private monopolists, the trusts and cartels. These private monopolists tax the domestic customers in their own fields; the state monopolist can tax the domestic consumer or the domestic producer or the general taxpayer as such. The totalitarian state can operate either in conformance with price as a regulator of the market or against this function of price, by quantitative regulations enforced by its super-economic political power.

In considering all these advantages for the totalitarian regimes one simple question remains: how much do they cost? The answer is that the costs are very high indeed, even the purely economic costs, not to mention all the spiritual and moral sacrifices exacted by totalitarianism. The totalitarian foreign trade policy intentionally disregards these costs because it has to serve non-economic, super-economic purposes. To fulfil these purposes it is ready to buy in unpropitious markets, at higher prices, with lower quality, it is ready to sell on equally unfavorable conditions, to renounce the real advantages of a true international division of labor, to build up an immense new bureaucracy and to load economic life with the whole unproductive burden of this red tape. These costs do not count, because they are silently to be borne by the peoples while the governments strengthen their power and pursue their aims. This is their widely admired efficiency. They are efficient, certainly—with the efficiency of the Pharaohs building their pyramids.

But it must be emphasized again that the individual measures

of foreign trade policy that are employed by the totalitarian states are utilized nowadays to a very large extent by many other countries too. This general application is responsible for much of the problematic character of present-day world economics; totalitarianism confronts the other countries with the necessity of deciding what way they want to go in the future.

## IV

In considering the relations of other countries with totalitarian economic regimes there is, to begin with, the widely discussed problem of dumping. If one adopts Jacob Viner's very broad definition that dumping is the "sale for export at prices lower than those charged to domestic buyers,"<sup>1</sup> then there appears to be no doubt that the totalitarian states are acting on this line methodically, openly and continuously. But the facts previously discussed indicate that this would be far too easy an answer. Germany sells abroad at prices lower than at home simply because her domestic prices are false. They are falsified by a falsified currency. The pre-1929 value of the German mark has not been maintained, and the German currency has lost a large part of its value, though the German public has not yet been told so. Open devaluations such as those practiced by so many countries certainly have at least the same disturbing effects on world trade as the substitutes for devaluation employed by Germany. Thus to attack the German export subsidies and at the same time to support the devaluation of the French franc does not appear quite consistent. Germany vigorously denies that she practices dumping. So does the Soviet Union. And Jacob Viner declares that "in the absence in Russia of the ordinary costing and price systems of the capitalistic world the concept of dumping scarcely seems applicable to the Russian practices."

But is this concept still applicable at all? At a League of Nations' meeting in May 1931 Maxim Litvinoff, People's Commissar for Foreign Affairs, suggested an international convention

<sup>1</sup> *Encyclopaedia of the Social Sciences*, vol. 5, p. 275.

abolishing price differentiations and sales on domestic markets at prices higher than those for sales on foreign markets;<sup>1</sup> the Soviet Union, he asserted, would be ready to join such an international convention, which would certainly improve the situation of the masses in the signatory states. Mr. Litvinoff could say this with full assurance. His ironical suggestion was certain of not being accepted. There are too many sinners everywhere.

Before the World War dumping was mainly a device of private producers, for which the protective tariffs afforded a great inducement and highly increased opportunities. But except for the tariffs direct governmental action for such a double-price system was very rare. Today not only have the number and the power of private monopolistic organizations greatly increased, but many states are themselves highly active along the same line. The McNary-Haugen Bill and the A.A.A. need only be mentioned as instances for the United States. Everywhere domestic producers are now highly protected on the domestic market, and they may use the world market as a dumping ground for surpluses not salable at home. Everywhere this double-price system of politically heightened prices at home and politically lowered prices on the world market is now applied and considered wholly legitimate and very wise. In these circumstances to blame the totalitarian states for their alleged dumping is only to support their domestic nationalistic propaganda. Other far more serious problems are involved.

How can the outer world regularize and normalize its economic relations with the totalitarian states? Commercial treaties of the usual kind with mutually bound tariff rates are out of the question when price no longer commands the exchange of goods. Only quantitative agreements are applicable. But what is then a most-favored-nation treatment from a state which openly declares that it is its policy to discriminate arbitrarily, even for purely political purposes? In practice the Gordian knot has been cut by simply stating for each case on its own merits what shall be acceptable as such treatment.

<sup>1</sup> Cf. Richard Oehring, *Sowiethandel und Dumpingfrage* (Berlin 1931) p. 10.

With regard to the Soviet Union this method has so far worked out quite satisfactorily. The commercial agreement between the Soviet Union and the United States is of the simplest form possible.<sup>1</sup> The Soviet government states its will "to increase substantially its purchases of American products," and it informs the American government (in the latest renewal of the agreement on August 6, 1938) that "the Soviet economic organizations intend to purchase during the next twelve months American goods to the value of at least \$40,000,000." In fact, American exports to the Soviet Union rose from 10.7 million dollars in 1933 to 40.2 million in the first nine months of the agreement year 1937-38, while American imports from the Soviet Union rose from their lowest level, 9.7 million in 1932, to 17.6 million in the same period of 1937-38 and to a record total of 27 million in the calendar year 1937, as a result of the unconditional most-favored-nation treatment granted the Soviet Union by the United States. England employs for her trade agreement with the Soviet Union a system defining certain proportions between the payments from and to the two countries.<sup>2</sup> In between these two methods is the United States' proposal to Germany to allot for imports from the United States an amount of foreign exchange proportionate to the amount used for this purpose in a typical pre-depression year such as 1929.<sup>3</sup> But this proposal has not materialized because Germany insists on a bilateral balance as against the large excess of American exports to Germany over imports from Germany in the years before National Socialism.

Instead, while the Soviet Union has adapted herself more and more to regularized relations with the other countries of the world, National Socialist Germany expects that the world will adapt itself to her methods of foreign trade: to a bilateral trade, in which the imports from each country are compensated by the exports it

<sup>1</sup> U. S. State Department, *Press Releases* (August 6, 1938) no. 379.

<sup>2</sup> Karl W. Kapp, *Planwirtschaft und Aussenhandel* (Geneva 1936) p. 99.

<sup>3</sup> Paul B. Taylor, "Problems of German-American Relations," *Foreign Policy Reports*, vol. 14, no. 9 (July 15, 1938) p. 104.

receives and in which all transactions are marshaled through clearing agreements. "It is by no means an absurd idea," declared Walther Funk, National Socialist Minister of Economics, "to look for a basis of international currency stabilization in a sensible clearing system in which we more than anybody else in the world have had the best experience."<sup>1</sup> And a semi-official German publication actually undertakes to prove that with these methods Germany has established a crisis-proof structure of foreign trade.<sup>2</sup>

"It is not surprising that . . . the first persons to discern the possibility of the clearing process imagined themselves to be the inventors of a new and effective economic system," declared a report of a League of Nations investigation as early as 1935.<sup>3</sup> In 1938 the inventors of this system of international trade still believe that it is a great achievement. But the material findings of that inquiry revealed the immense superiority of multilateral trade and an internationally functioning currency system. The Reichskreditgesellschaft, in asserting the efficacy of the German methods, refers to Germany's imports from Roumania during the first quarter of 1938, a period that was affected by the international recession of 1937: during that time Roumania's exports to Germany decreased much less, in comparison with the same period of 1937, than did her exports to Great Britain and France. But it is obvious at once that to cite this as evidence of the superiority of German methods is to put the cart before the horse. It is not because of compensatory bilateral trade and the clearing system that Germany continued to buy from Roumania (though with a 20 per cent decrease) but because of Germany's continued extensive public spending for armaments; this spending compelled Germany, during the last quarter of 1937 and the first quarter of 1938, to maintain increased imports from a great many countries in spite of partly diminished exports.

<sup>1</sup> *New York Times*, March 7, 1938.

<sup>2</sup> Report of the Reichskreditgesellschaft, cited above, pp. 86-87 but contradicted on p. 89.

<sup>3</sup> *Enquiry into Clearing Agreements* (Geneva 1935).

This is only one instance of what is really behind the whole problem. The totalitarian methods of foreign trade are not precedents to be imitated by other countries. On the contrary, it has been possible to pursue them so far only because the other countries have not followed the totalitarian example, and they have been pursued at the expense of these other countries, with the result that there have been increased disturbances and a further disintegration of world economics. This is not so important with regard to the Soviet Union because of her relative insignificance in world trade. It is extremely important with regard to National Socialist Germany.

Moreover, both of these totalitarian states make use of their economic methods for their final political goals. It could well be that the imitation of such economic methods by other countries might lead in them too to the development of similar political tendencies. The totalitarian states would certainly welcome such a development. But for those who are opposed to it this is only one further inducement to act with all possible forcefulness for a real recovery of world economics.

# THE SIGNIFICANCE OF METHODOLOGY FOR THE SOCIAL SCIENCES

BY FELIX KAUFMANN

## I

AN ANALYSIS of the present situation of the social sciences and of their development during the past half century reveals a great uncertainty as regards the principles involved. The origin of this uncertainty is easily explained. The social scientist who deals with more general questions of his discipline soon meets problems which he cannot solve with the knowledge at his disposal and with the methods familiar to him. Frequently such problems are presented to him by practical life: it is found that with a change in circumstances general presuppositions which have hitherto served well, and have thus been considered absolute and unshakable laws, can no longer, or can only with modifications, stand the test of experience. The laws of classical economics, for example, are not applicable without modification in an economy of imperfect competition.

Often the statements which have to be modified are deductions, or are at least regarded as deductions, from the established results of other sciences or from general philosophical principles (such as those concerning the nature of human impulses or of the human mind). Therefore the question may arise whether the presuppositions which are no longer applicable should be replaced by others that can form a basis for a new theory which would answer the demands of additional experience. Unfortunately, the result is only too often a rash adaptation of certain dogmas which claim to be philosophical principles. The intention back of these endeavors, which usually impairs the critical reflections, is to discover laws of the social world which are valid *a priori*.

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If the application of these dogmas to the problems of social science results in disappointment, there is frequently a violent reaction. All relationship with other disciplines is rejected, and an autonomy of the social sciences, or even of each single social science (such as jurisprudence or economics) is proclaimed. During the past few decades movements of this kind, which have written on their banners the postulate of the "purity of method," have done excellent work on criticism of the fundamental concepts of social science and have paved the way for profounder analyses. They have succeeded in separating to a great extent the specific problems and aims of their own science from those of other sciences, and they have demonstrated that the concepts of one science, because they are closely connected with specific problems, cannot be transplanted without creating equivocations and *quaterniones terminorum*. As an illustration I may mention the fight against psychologism in economics and jurisprudence, and the demarcation of the aims and methods of these sciences from those of moral philosophy on the one hand and history on the other.

But this movement for the purity of method has been accompanied by serious dangers for the progress of the social sciences when instead of a partial separation a total isolation has been demanded. For though the various sciences may differ in their aims, and consequently in the selection and combination of their data, they nevertheless have something in common with respect to their presuppositions. This point should be considered more fully, not only because of its relevance to the history of theories but also because it opens a good approach to an understanding of the most important tasks of the methodology of the social sciences.

Let us take as an example the relations among the various sciences of man. The defenders of the "purity of method" declare—sometimes invoking the authority of Kant or the neo-Kantian philosophy—that there exists not a single concept of man which adequately represents him as at once the subject matter of juris-

prudence, economics and physiology. To believe otherwise, it is argued, would mean adherence to that naive realism, conclusively disproved by Kant, which avers that objects exist as such and are merely depicted by cognition. Kant has proved once and for all that objects are created by a synthesis which shapes the amorphous material of sensory perception. This doctrine, applied to scientific thinking, leads to the famous statement that it is the method which creates the object. The "prescientific conceptions" of everyday life are held to be only starting points or transitional stages. They are denied all function in the process of cognition, as soon as the exact scientific conceptions have been formed; they are even a danger for the latter, as there is a temptation to combine scientific conceptions with the prescientific conceptions, which are often designated by the same name.

This shortly outlined argumentation is essentially sound as regards its criticism of naive realism; and the application of this criticism to the formation of scientific conceptions is an effective antidote to the confusion which a superficial syncretism of methods entails. The weak point of these doctrines lies in their conception of the relation between scientific and prescientific knowledge. To come back to our example, they do not fully recognize the fact that after all it can be said of the same man that he has painted a picture and that he has exchanged it—directly or indirectly—for food with which to satisfy his hunger. The question involved is not one of a merely apparent identity—not an equivocation which is abolished in the procedure of reflection—but one of a genuine identity. An interpretation of scientific thinking which does not take cognizance of this cannot satisfy, and it must prove especially incapable of describing the nature of the relationships among various sciences or groups of sciences.

In order to approach a systematic analysis of these relations, with special reference to the social sciences, different strata of generality should be distinguished. First, each social science, as science, is subject to certain principles of scientific thinking as a whole, which can be called logical principles (in the widest mean-

ing of that term, including the principles of pure mathematics). Second, as empirical science it has its share in the general presuppositions of the empirical sciences concerning space, time and causality. Third, as a science of living beings it has its share in the specific presuppositions upon which biology is based. Fourth, as a science of thinking beings it absorbs general presuppositions concerning the spiritual structure of man. Fifth, it is finally (except, perhaps, for general sociology) the science of a certain section of the social world, and as such it may have its own presuppositions.

If we take into account this hierarchy of the presuppositions involved, we can—without, however, falling into a superficial syncretism—recognize the barriers to the postulate that any single science is autonomous, and judge much more reliably how far results which have been won in one science are applicable to another science.

We may say that the main task of methodology is to make the implicit presuppositions of scientific thinking explicit and to bring them into coherence with one another. Such a statement, however, meets the objection that this must be done within the frame of research in each single science, and that there is no specific philosophical method which would relieve the scientist of this work in his proper field.

The arguments can be formulated as follows: wherever it has been contended that a genuine philosophical, in contradistinction to scientific, method has been developed the final result has been a new dogmatism, for science comprises the entirety of conceivable ways to reach an ordered knowledge of the world. There is nothing inaccessible to science, and therefore nothing left for a philosophy or a methodology with a specific individual procedure. The attainment of clear and distinct statements and concepts—often called the aims of philosophy and methodology—is implicit in the aims of all scientific thinking. Therefore no particular procedure of inquiry which serves these aims can be called an extra-scientific procedure. There is, indeed, one thing which

restricts scientific thinking. Every scientific statement<sup>1</sup> is subject to controls which are in principle unlimited. It has to stand the test of experience, to prove that it is in accordance with observational data of a certain kind. But this does not mean a restriction of scientific knowledge as compared with some other kind of knowledge; on the contrary, the very conception of knowledge implies this possibility of control. This distinguishes it from an unfounded, merely subjective faith. Therefore those who pretend to an individual philosophical or methodological knowledge can be told that either the inquiry they have in mind is subject to this observational control—in which case it belongs to a science—or it is not subject to such control, and then the statements at which it arrives cannot be looked upon as knowledge.

In judging this argumentation we can ignore the question of whether from the historical point of view it is justifiable to differentiate between philosophical problems and statements, on the one hand, and scientific problems and statements on the other hand. For this question has no bearing on our purposes. Nor need we examine here to what extent the inquiry which is intended to clarify confused thought represents a method of its own kind as compared with the usual scientific methods, for it may be accepted that this reflection is an inherent purpose of scientific thinking. It may also be fully accepted that the very conception of knowledge implies the possibility of control. Therefore in my opinion it is not on grounds of principle but only on technical grounds that the introduction of a quasi-independent methodology can be justified. But the technical grounds are serious enough, especially in the stage of development in which we find ourselves at present.

It has already been pointed out that presuppositions implicit in statements of the social sciences belong to different strata of generality. To understand the meaning of these presuppositions is very important for the social scientist, especially for the "theoretical"

<sup>1</sup> In this connection I mean by scientific statement only statements of empirical science.

cian" in a social discipline (that is, one who deals with problems of his science that have a very wide application). Today, perhaps more than ever, he needs for this purpose the help of a "specialist in generality."

During the past few decades it has frequently been pointed out by social scientists and social philosophers, how little time the abundance of material demanding specialization leaves the researcher for acquiring reliable knowledge in fields other than his own and thus for a summary survey of the interrelations of the different sciences. These complaints fail to take into account that results of thinking have been attained which extremely facilitate such a survey. An urgent task of the "specialists in generality" would then be to acquaint social scientists with these results, and to show how they can be applied to the treatment of their own problems. Their application to a critical analysis of the controversies concerning methods is comparatively easy. This will show that many of those controversies that have been looked upon as conflicts of principle and therefore irreconcilable have arisen only because of untenable presuppositions. In the following section I shall explain this point in more detail.

## II

I wish now to enumerate and briefly discuss a series of principles concerning the meaning of empirical knowledge. These principles have not been discovered only during the past few decades; they have now been so corroborated by the analyses of mathematical methods and those of the natural sciences that they can be looked upon as firmly established and generally accepted by scientists. They do not represent metaphysical dogmas but signify the results of a rigid examination of scientific thought.

1. For every scientific assertion about reality there are rules of procedure for deciding whether or not the assertion is true. It is not necessary that for every assertion there be criteria for both truth and falsity—universal sentences cannot be proved true—but criteria for one or the other must exist. These criteria always

imply tests by observation, either sensory perception or introspection. If this statement seems to savor of empiricism or positivism, it must not be forgotten that it is by no means subscribed to only by those philosophers who are generally regarded as followers of either doctrine. For instance, it has found an excellent formulation in Leibniz' *Principe de l'observabilité*.

2. No scientific assertion simply records observation. Each includes anticipations of future observations (by the same person or another one). These anticipations are closely connected with the criteria of truth and falsity mentioned above. Among these criteria the testability of assertions of one person by other persons is of cardinal importance.

3. From this it follows that scientific knowledge is never "knowledge without presuppositions." For scientific thinking there is no universal doubt.

4. Little as empirical scientific thinking can start from an absolute beginning, just as little can it arrive at an absolute end. This is not only because the material of experience is inexhaustible, but also because no assertion concerning reality—whether it be about facts or laws—can be finally established or finally refuted. There always remains a possibility that overpowering contradictory evidence will induce us to give up an accepted statement. In this respect scientific procedure is comparable to a legal trial, for there too, even though the final decision may have been given in the highest court, it is possible in certain circumstances to lodge an appeal for reopening the case. In science a direct perception of external events or the testimony of one's own psychic experience in immediate recollection is regarded as the strongest evidence. Nevertheless, "delusions of perception" and "delusions of recollection" are not impossible.

This perception of the senses and this comprehension of one's own psychic experience in recollection are, however, in a certain sense basic for cognition. The question of the nature of objects always leads finally to a reference to such experiences. What an object of a certain kind is—a cherry, for example—can be an-

swered more or less exactly by enumerating its qualities of form, color and the like. But the question as to what exactly "red" is can be answered only by "look here, something like this," that is, by an invitation to realize an experience of a certain kind. Also, the question of the nature of certain psychic acts (such as judging and willing) leads finally to an invitation to carry out certain reflections directed to these acts. Thus experiences of the senses and of self-consciousness (reflection, introspection) can be called "sources" or "elements" of cognition. But it is necessary to guard against the error of seeing in such experiences the source of absolute truths, that is, truths which are not subject to control. "True" and "false" are terms which rightly apply only to judgments, not to sensory perceptions or psychic experiences. And the determination as to whether a judgment is true or false lies in a system of controls, so that the idea of a truth without control is a *contradictio in adjecto*.

5. It follows that in scientific thinking there can be no isolated judgment; each stands within a system (though not a finished system) of other judgments. Its accordance with other recognized judgments is a necessary condition of its truth, or, more correctly, is a criterion of its truth.

6. It was formerly believed that the statements of mathematics, especially of geometry, contained judgments which were irrefutable statements about reality. Modern research on the foundations of mathematics has made clear that this belief was wrong. It grew out of a confusion of definitions and judgments about reality. Definitions, which are prescriptions for the application of terms, do not of course require verification and cannot be disproved—but only for the reason that they do not contain any statements about reality. The reason for this confusion may be explained as follows. The defining terms in the definition of an empirical concept usually contain combinations of predicates which refer to qualities or relations frequently combined in reality. This holds for the prescientific definition of concepts which concern things of everyday life (animals, plants, objects of daily use

and the like) as well as for those which refer to scientific abstractions (such as electrical potentials or blood types). As soon as there becomes associated with the definition an awareness that the qualities named in the *definiens* are in reality more or less frequently combined—that is, an awareness that conceptions of real objects have been defined—the wrong impression is easily created that the definition contains irrefutable statements about reality.

7. From what has been said under (4) to (6) it follows that there exist no irrefutable laws about the world—neither irrefutable laws of nature nor irrefutable social laws. From the fact that the world of nature can be described to a great extent by mathematical formulae it must not be inferred that there is mathematical certainty that the object exists as described. From the mathematical formulae themselves it cannot be concluded that with their help one can describe nature. Whether they can describe nature can be ascertained only by experience, implying observation.

8. Every law asserts a conformity of the universe in a certain respect. Each law declares that always and everywhere in general, or always and everywhere within a certain frame of time and space, one can conclude from the presence of a finite number of facts of a certain kind the previous, contemporary or future appearance of facts of another certain kind. That the knowledge of a finite number of facts suffices for concluding the existence of other facts is an essential criterion for a law of experience. If one take no account of this, and formulate the law by adding a clause like "all other things being equal" or "all disturbances being excluded," and by excluding discrepancies attempt to make the law applicable without exception, then it loses the character of an empirical statement and becomes a convention.

9. The *explanation* of a fact consists in citing a law according to which facts of this kind always follow facts of a certain different kind in (more or less sharply) determined temporal intervals, and in ascertaining that the fact to be explained has actually followed facts of that kind within such an interval. The number of explana-

tions of a fact is, in principle, unrestricted, and it would be rash to assume that a single kind of explanation is the most suitable for all aims of knowledge. In physics, to be sure, it has been shown that certain ways of observation hold good universally, but in social science—at least according to the present state of our knowledge—the situation is different. Here lies one of the main roots of numerous methodological controversies in social science.

In the following paragraphs I shall mention some issues in the social sciences for the treatment of which a consideration of the above principles is particularly important.

10. With the elimination of the idea that there are irrefutable empirical laws, the controversy between deterministic and indeterministic doctrines loses its sharpest point. The question now is no longer whether all events of psychic and spiritual life and also of the social sphere are equally predetermined, as are (supposedly) the events of inanimate nature, but—in both cases—how far the determination, that is, the predictability goes, and by what data one can make predictions that have a certain degree of precision.<sup>1</sup> Thus the way has been cleared for a systematic classification of predictions. Such a classification is a prerequisite for a profounder comparison of the methods of natural science and of social science, and for an understanding of what may be called, in the social sciences, the problems of imputation—for example, in the science of history, adjudging the nature and degree of the influence of great men upon historical development, in the science of law adjudging when it can be assumed that a certain damage was caused by a certain person, and in economics adjudging the share of the different factors of production in the value of the product.

11. The problem of the freedom of the will is closely connected with that of determinism, and has usually been treated in that context. Quite apart from its theological implications, this problem has three important aspects. The first, which is signified by the contrast between what Kant called *homo phaenomenon* and *homo noumenon*, may be omitted here, since it has no direct

<sup>1</sup> Cf. below, section III.

bearing on methodological questions within the social sciences. The other two aspects, however, are important for our purposes; they have to do, respectively, with the differentiation between causation by physical factors and causation by psychic factors, and with the relationship between "freedom" and "responsibility." About the first aspect something will be said under the numeral (12); about the latter I shall confine myself to a few remarks.

If freedom of will is held to be identical with responsibility, or if, without identifying them, it is held that freedom of will is the necessary and sufficient condition for responsibility, the intention is usually to contend that only the person who has acted of his free will can be made responsible for his action, that only such a person can, for example, be punished or held accountable to civil courts. But decision as to the circumstances in which it is permissible to punish a person or to make him accountable to a civil court depends frequently upon controversial views concerning legal policy, and thus the discussion of freedom of will becomes strongly influenced by these practical issues. This fact has led to disastrous confusions that can be overcome only by a careful distinction between various approaches which in the traditional treatment of the problem have overlapped with one another.

12. It has just been mentioned that in the problem of freedom of will the distinction between causation by physical factors and causation by psychic factors plays an important part. This distinction is important also in a great number of problems in social science. The question is discussed whether it is admissible and whether it is imperative to explain social events by psychical factors. By the behavioristic and physicalistic doctrines it is answered in the negative. The reasons given are first, since no person can look into the soul of another person, all assertions about the soul and the mind of a fellowman are based exclusively on external observation, and second, observation even of one's own person is very unreliable and cannot be controlled.

These arguments do not hold, however, for the reason that no statement about man is based merely on external data, but always

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includes an interpretation of these data on the basis of self-observation (introspection). There is thus a relationship between data of external experience and data of self-observation, which admits of mutual control between the two types of data. A person's self-observation can be controlled not only by his further self-observation but also by his own external experience and by the external experiences of others. Therefore, no matter how justified are the doubts about an uncritical use of self-observation, the psychic bases of explanation cannot be excluded from the sciences of human behavior.

The fundamental distinction between natural sciences and sciences of human behavior, including of course the social sciences, consists in the fact that the first, contrary to the latter, examine only objects of external experience and base their explanations only on facts of external experience.

13. As wrong as the assumption that the social sciences can do without data and rules of self-observation, and thus without analysis of motives, is the one that an analysis of motives need not consider facts of external experience. The fallacy of the latter assumption is most easily revealed by an analysis of the motives of purposive actions directed at bringing about certain effects in the external world. These motives imply that a knowledge of the means which are suitable for the intended ends is presupposed, in other words, a knowledge of external causes which will bring about the intended effects. It follows that the "understanding" of human behavior is not coordinate with the explanation of natural science, but that, since it is the more complex process, it includes the latter.

14. From the above it follows that we cannot contrast the causal and the teleological methods as two completely different approaches. The teleological method combines considerations of two different causations: the establishment of the goal is the psychic cause (the motive) for bringing about the facts which are recognized as the suitable means for reaching the goal; and these means bring about the facts which have been established as goals.

15. An understanding of the character of the teleological method is essential for an adequate treatment of the basic problems connected with conceptions of value, and especially for a decision as to whether there exists a specific cognition of value. It can be shown that many of those value judgments for which objective (intersubjective) validity is claimed are assertions about the suitability of means utilized for certain given ends. The ends involved (for example, the safeguarding of life and health, freedom, social position) are—either because of their connection with vital needs or inborn inclinations, or because they are by tradition or custom entrenched in a social milieu—so deeply rooted that they are not even fully, consciously recognized. This frequently leads to the illusion that the right means to such unquestionable goals are *absolutely* right.

After this point has been clarified it can be shown without too great difficulty that there is no cognition of value independent of other sources of knowledge, and that value conceptions can be reduced to value-free conceptions—for example, beautiful is what brings about disinterested pleasure (Kant), that is, what causes a certain psychic mood or attitude.

16. An analysis of value judgments, especially of those which concern the social sphere and are formulated in the midst of social life, frequently encounters considerable difficulty for the reason that their formulation usually takes place on a lower level of clarity, so that they do not admit of an unequivocal interpretation of their content. On the other hand they, or rather the fact that they are pronounced by certain persons on certain occasions, may be very informative about the characters of those who have uttered them, about their state of mind, their aims, their emotional attitude toward what has been judged. Therefore an “objective interpretation” of value judgments concerning the social sphere—in which neither the person who has pronounced them nor the situation in which they have been pronounced is taken into consideration—does not usually achieve remarkable results; but a subjective-historical interpretation, which takes account of these

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factors, can arrive at results which are historically, psychologically and sociologically important.

Here lies one of the main roots of the doctrines of "historicism" and "sociologism," which contest the objectivity of the social sciences. An examination of the methods of social science cannot refuse to test how far these doctrines hold good. Here it can be said only that sometimes those who adhere to these theses, which assert the merely subjective validity of the statements of social science, have in mind the statements of abstract natural science (physics) as the typical example of objective validity, without, however, analyzing thoroughly enough the assumptions implicit in this conception of objective validity. If this is done, also this contrast between the method of natural science and the method of social science loses its sharpness.

### III

It can be shown that the greater part of the discussion concerning the methods of social science in general, or of single social sciences, is dominated, more or less consciously, by the question of the relation of these methods to those of physics. This is not very surprising. The achievements of physics during the past century—especially their application to technology—are so outstanding that we are tempted to conclude that if the methods of physical research are not inapplicable to the social sciences for reasons of principle, then we should certainly make use of them, since they have functioned so brilliantly. Social philosophers—according to whether or not they believe that these methods are applicable—are divided into naturalists and anti-naturalists.<sup>1</sup> But very often both arguments and counter-arguments are untenable, for they start from wrong presuppositions about the character of the methods and laws of physics. It is nearly always assumed that these are of a strict and unshakable validity, and the reason for this is thought

<sup>1</sup> Of course, in the camp of the naturalists as well as in that of the anti-naturalists there are differences of opinion sufficiently great to cause the formation of schools in violent disagreement with one another.

to be their mathematical character. As we have seen above, such an interpretation completely misjudges the character of laws of experience and of the relationship between mathematics and knowledge of nature.<sup>1</sup> From this wrong point of departure never-ending controversies develop about the question whether strict laws or merely rules and tendencies can be found in the social sciences.

A realization that the usual contradistinction between the methods of natural sciences and social sciences springs from wrong presuppositions should not, however, lead to the opposite mistake of minimizing the differences between the two branches of knowledge. To find the right middle course between the two extremes, it is necessary to make a careful analysis of the characteristics of natural laws, and examine to what extent these characteristics may be expected also in social laws. It will be found that what appeared to be differences of principle are merely differences of degree.

Such an analysis of the characteristics of natural laws will have to consider, for example, their "simplicity." First it will be recognized that there is by no means only one meaning of this conception of simplicity, and that the term has to be made more precise, although this can be achieved only with considerable arbitrariness. It will then be possible to attempt a comparison of social laws and natural laws with regard to their simplicity—for example, with regard to the number of independent variables appearing in each kind of law. A similar examination could be directed to the unity of knowledge in physics, as it reveals itself by the hierarchic division, or logical connection, of physical laws and the small number of irreducible constants. Also, the extent of predictions in space and time can be examined, and the degree of precision they allow, the results to be compared with those of corresponding analyses in the social sphere. Here it will be evident that there are social laws (rules) which allow reliable predictions for a short time. A

<sup>1</sup> There is a famous remark of Einstein's which should be borne in mind: "In so far as the axioms of mathematics refer to reality, they are not certain; and in so far as they are certain, they do not refer to reality" (*Geometrie und Erfahrung*, Berlin, 1921, p. 3).

person who writes and mails a letter or who buys a railway ticket makes, more or less consciously, chains of predictions about events in the social world, and has confidence in their occurrence. These predictions hold good, although those who make them usually have no detailed knowledge of the persons who act within these chains of causality. As a rule one does not know the postmen or the other officials who are charged with the handling of the letter which one writes, or the engineers who drive the trains in which one rides. It is obvious that knowledge—frequently even superficial knowledge—of a social organization permits very reliable predictions concerning activities which occur within that organization.

Comparison of natural laws and social laws, if based on a thorough analysis of the principles involved, reveals also that some contrasts—such as those between the inductive and the deductive methods, or between statistics and theory—have been overstressed as a result of wrong presuppositions governing the arguments. Such a comparison offers a good starting point for systematic analysis of the methods of social science.

But the result of such an analysis seems at first to give cause for discouragement rather than for satisfaction. After the elimination of the mistakes mentioned above many "simple solutions," especially those based on a faulty apriorism, must be abandoned, and the structure of problems, which is now revealed, is seen to be far more complicated than had previously been assumed. As one example among many may be mentioned the question of the objectivity of knowledge in social science. This question can be divided into the following three groups of problems which, though interdependent, must be carefully distinguished from one another.

First, to what extent do the description of social facts and the universal judgments based on these data depend on the spatial and temporal distance between the facts described and the person who describes them (or the person who makes the universal judgments)? Here we are dealing with questions which show a formal analogy to problems that have been treated in physics

in recent years, especially in Einstein's general theory of relativity.

Second, to what extent is the selection of social facts and their interpretation influenced either actually (though not unavoidably) or unavoidably by specific psychic factors relating to those who issue judgments about the social world? In considering this question it is necessary to consider not only conscious factors, individual and collective—the latter conditioned, for instance, by membership in a certain nation, class or denomination—but also subconscious and unconscious factors, such as are sometimes summed up under the conception of the "personal equation." Here various traditions, or rather the dispositions which they bring about, leading the attention in certain directions, have an important part. The interpretation of facts, as the term is used in this connection, includes primarily an estimate of the causal relevance which events of a certain kind have in bringing about or avoiding certain other events—for instance the degree of influence exerted by given conditions of production on the formation of a given political order.

Third, to what extent are judgments of value which are looked upon as "subjective" accepted by social science either actually (though not unavoidably) or unavoidably? For an effective treatment of this question the above-mentioned analysis of the meaning of value judgments is a necessary condition.

It is apparent that an examination of methodology entails many difficult problems, but nothing is more wrong than to accuse it, for this reason, of having complicated originally simple facts and to suggest abandoning it and returning to the "facts themselves." This argumentation is no more justified than would be the assertion that looking at a knife through a microscope spoils the blade, because it makes visible certain dents which the naked eye cannot perceive. The complications exist in the actual procedure of science, but they are not clearly understood unless attention is directed to them. A lack of clarity about this, especially because it leaves scope for wrong interpretations, can lead scientific research deplorably astray.

## IV

Once it has been understood how manifold are the factors which have to be taken into account in any analysis of the procedure of social science, and how complicated are their mutual relations, then it becomes clear how important it is to have a systematic guide through this labyrinth. Fortunately there are suggestions of such a guide in the results of modern analyses concerning the foundations of logic and mathematics. But they can be applied to the problems of social science only after extensive modification. I have in mind the axiomatic method in its modern version, in which it has a close connection with so-called "symbolic logic." It has attained its most perfect form in Hilbert's theory of proof.

In this method one starts from a series of given signs arranged in basic formulae; no definite meaning is attached to the signs, and rules are established for determining how further formulae can be built out of the basic formulae by certain combinations and iterations of the signs they contain. The signs, basic formulae and rules for building further formulae are chosen in such a way that if the signs are given a certain indicated meaning, the systematic entirety of the formulae presents itself as a mathematical proof in the traditional sense. In this procedure the point that interests us is the fact that since the basic formulae, and also the operations for building deduced formulae, are completely and uniformly established, there is a complete determination of the conditions under which a formula is true, that is, provable. An ideal clarification of the methods of an empirical science would entail the establishment here too of a system of definitions which would contain criteria for determining the truth of its statements. This would be an enormous task, which could be accomplished only step by step and with great caution and thoroughness, but each step would signify essential progress; it would mean increased protection against the danger that scientific thinking will be lured into wrong ways, and it would mean help in selecting essential observations and correlations and in deciding among competitive theories. In the following paragraphs I shall mention the most important dif-

ferences between the methods of empirical science and those of mathematical science, in order to sketch an outline of the first.

1. In empirical science too the basic assumptions, or basic hypotheses, corresponding to the basic formulae, are accepted without further "justification" (without test by observation, or by deduction or induction), but this does not mean that they may be looked upon, once and for all, as true statements of science. They are subject to certain controls which do not greatly differ from those of other statements of science (*cf.* paragraph 2, below), and they are eliminated or modified if they do not comply with these controls.

2. On the whole, in every empirical science it is necessary to distinguish between the conditions under which a statement is admitted into science and the conditions under which the statement, once admitted, will remain, while in mathematics every proved statement belongs to science for good. The criteria for admitting statements into science and for keeping them are to a large extent the same, but even if they were completely the same—which is not the case—this distinction would be required, because the admission of a statement into science represents a sharp incision into the progress of control which, in principle, is never concluded. Since a true statement of science—as has been pointed out—must be compatible with all other true statements, the admission of any new statement means—in principle—a shifting of the controls for the other statements, though a very insignificant one. In every stage of scientific operations, however—under the ideal presupposition of a completely clarified method—it must be possible to ascertain unequivocally in what circumstances a given statement can be called a true statement of the science it refers to, and in what circumstances it cannot be. The two classes of cases form a complete dichotomy.<sup>1</sup>

<sup>1</sup> From this follows the decisive objection against the interesting and ingenious attempt of Reichenbach to replace the contrasting pair "truth" and "untruth" in the empirical sciences by a sequence of steps of probabilities with numerical values from 0 to 1, connected with the construction of a system of logic with "several values" (*mehrwertig*).

3. With respect to the system of controls there is a further difference between the methods of mathematics and those of empirical science in the fact that in the latter various "weights" are attributed to various statements. This is intended to say that in the control system a statement's accordance with certain groups of statements is given a greater importance than its accordance with certain other groups of statements. Further intricate analyses are necessary in order to achieve a more precise formulation of this point. An additional complication is presented by the circumstance that for various groups of statements to be controlled there can be different orders of rank of the weights.

4. From the point of view of methodology the most important distinction among the statements of empirical science—a distinction which does not exist in mathematics—is that between statements which are general and comprise an indefinite number of homogeneous cases (homogeneous, of course, only in a particular, well-defined direction) and statements that are not general and contain assertions about a certain number of single cases. A decisive characteristic of the general statements is that they refer not to certain places and certain times, but to variable places and times. Of course, the domain of variability can be limited—a point which has not usually been sufficiently considered. The controls for general statements and for non-general statements show great (although not infrequently overrated) differences.

For those who find that an analogy with familiar facts is a support in understanding such perhaps unfamiliar reflections as these, the structure of the methods of a science may be compared with a club in which there is a certain system of balloting concerning the admission and the exclusion of members. The founders of the club are not subject to balloting as regards their admission, but they can be excluded by ballot. There are various ranks among the members. Members of a higher rank have plural votes. The controls for the members of higher rank may be milder than those for members of lower rank, but they can also be sharper. It may be that for members of higher rank the controls which decide on

admission are sharper, and those which decide on the retention of membership are weaker, than the controls for members of the lower ranks. The regulations can determine either that with admission the rank has been decided on for good, or that after admission and trial the rank can be raised by continued controls. This also can be arranged differently for different groups of persons.

A decisive factor for the acquisition of membership in the club (though not for the founders) and for the retention of membership (for all members) is compatibility with other members, in certain prescribed respects. Frequently eligibility to the actual control exercised by the club is made dependent on the result of a previous control, as in clubs in which membership is limited to a certain sex, a certain age limit or a certain profession. The previous control is distinguished from the actual control by the fact that no vote is taken on it. If its conditions are not fulfilled an admission is *ipso facto* out of the question.

As can easily be seen, this is analogous to the question of whether a certain statement belongs to the subject of a given science. If the result of this previous control is negative, then it is unnecessary, within the scope of research in this science, to consider whether the statement is true or false. Thus methodological examinations can be divided into two groups, those which deal with the content of statements without examining their truth or untruth, and those which are concerned with the "truth" of the statements. But it must be remembered that this distinction is not identical with, although it is related to, the distinction between the subject of a science and its procedure in a more limited sense. In other words, rules prescribing the procedure for ascertaining the truth of statements can be introduced into the definitions formulating the subject of a science. This is evident, for instance, in the sociology of Max Weber, and his "method of understanding." And this point must be considered especially in treating the questions involved in delimiting the scope of the various sciences.

Those who believe that such problems as we have been con-

sidering can be treated simply and uniformly should consider the fact that scientific research is a process depending on certain rules, which, however, leave scope for free choice (as for example the rules of chess), and that this process cannot be fully understood unless these rules are understood. Those who approach this task with reference to a certain social science will find that the analyses outlined above, concerning the bases of mathematics, can with advantage be supplemented by analyses of the logic of modern physics, such as have been carried out especially by Bridgman.

It is contended by some that the progress of science is not, or at least not primarily, determined by strict rules, but is determined by practical goals always presenting themselves in a renewed and changing form. To this I would answer that the system of rules is not rigid but is what might be termed half rigid: in the very hierarchy of rules there is provision for changes of rules. This can be made clear by an analogy with the development of law within the frame of a state. In the very order of law are contained the principles for change in the law. But it is of greatest importance for an understanding of law to distinguish between questions *de lege ferenda* and questions *de lege lata*. Purpose may be the creator of law (Ihering), but for a great number of legal questions the reference to a purpose is beside the point, and it must be possible to draw from the rules of the law's application, which have also been fixed with consideration of these purposes, conclusions as to how far these rules belong or do not belong to the subject. The relationship between the rules of scientific research and the purpose of research is similar. And it must also be borne in mind that a certain acquisition of knowledge is itself a direct purpose of research. The acquired knowledge may then serve practical purposes, and the selection of the knowledge to be aspired to depends to a greater or smaller extent on the practical advantage which one expects from it.<sup>1</sup>

<sup>1</sup> In a second essay the author will discuss, on the basis of the analysis presented here, the formation of certain rules that might govern the discussion of contested methodological problems in the social sciences, and will make suggestions as to the organization of methodological training and cooperation of social scientists.

## EDUARD HEIMANN ON THE “REVOLUTIONARY SITUATION”

EDUARD HEIMANN's discussion of my views in the May issue of *Social Research* falls so far short of accuracy and objectivity that I find it necessary to enter a most emphatic demurrer. Although he refers to me as the “most informed and humane representative of Marxism in America,” at the same time he attributes to me an advocacy of political procedures which include cheating the peasants, terror, violence and the whole decalogue of crimes I have so strongly condemned in both the fascist and the Stalinist dictatorships. These serious charges he hangs upon half a sentence which, by what appears to be an almost wilful disregard of my stress on the essentially democratic content of the Marxian theory of social revolution, he wildly misinterprets into its opposite.

Heimann begins his discussion by attempting to show that I have substituted for the Marxist doctrine of “ripeness of conditions” a new doctrine according to which the sufficient condition of revolutionary change is merely “the breakdown of the old order”—a breakdown that may be produced even by a crop failure. “Here,” he adds, “the idealistic disregard for real men becomes apparent, together with its inevitable concomitant, dependence on the use of physical force to realize an order that is not positively urged by the desires of the people.”

Now for years I have subjected to unremitting criticism the orthodox Marxist dogma that socialism is an inevitable development of ripening economic conditions under capitalism, conditions which not only produce the technological and organizational prerequisites of the new order but also lash the workers into self-consciousness, create working-class parties with intelligent leadership, courage and moral vision, and by this immanent monistic process guarantee the advent of socialism if not its date. As opposed to this view I have contended that “only the objective possibilities are given; whether they are realized is a political question.”

The political question depends, in turn, upon a number of other factors—broadly speaking, psychological and moral—which although causally determined enjoy a relative autonomy in respect to the economic tendencies of capitalist development. Heimann himself quotes with approval the sentence cited above, and admits that the view I have criticized was the official doctrine of German Social Democracy,

with which his own organizational connections lay. But then he commits the elementary logical fallacy of assuming that because I deny that ripened economic conditions are sufficient for the transition to socialism, I also deny that they are necessary. In his own mind he then has an easy task of convicting me of pure voluntarism, or more specifically, of believing that a social revolution can be achieved by a small determined group independently of the state of mind and behavior of the population as a whole. This despite the fact that in my chapter on Marx's theory of revolution I devote considerable space to a refutation of this Blanquist position.

Indeed, it is hard to make out Heimann's own position on this question; and there is some evidence that he does not understand what the real question at issue is. For him "ripeness of conditions" *by definition* means both that the economic conditions of socialism are present and that "men shaped by them" are already socialists. Everything else in his account is nothing but a tautologous transformation of this sentence. But the question is: what is the relationship between the ripe economic conditions (such as have existed in England and America for decades) and the human beings who live under them? Sometimes Heimann writes as if there were a univocal determination of economic conditions upon "men shaped by them," so that provided we wait long enough we will get socialism. This is the traditional attitude of Social Democracy. Sometimes he seems to admit that the political, psychological and moral factors, whose conjunction defines the ripeness of men, are not strictly determined by economic factors. But then he couples to this a view of the human mind and of human morality which takes both out of the realm of scientific analysis and converts them into opaque theological abstractions. This mystical conception of mind and morality is an expression of what may be called *Pfarrersozialismus* and butters even fewer parsnips than does the social fatalism of orthodox Social Democracy.

In order to attribute to me the fantastic doctrine that a socialist revolution can and should be achieved by a minority of professional revolutionists, Heimann is compelled to make a major operation on my exposition of the Marxian conception of a revolutionary situation. He overlooks the fact that such a situation is described by me as one in which there is a conjunction of factors: economic breakdown, inability of the dominant classes to rule, broad spontaneous manifestations by the masses for social change. A lost war or a natural calamity, where the objective factors are ripe, may set off the psychological fuse. By itself of course it is not sufficient. Nonetheless Heimann imputes to

me the view that in case of a natural calamity (say an earthquake or plague or famine) the situation would be ripe for socialism, or at least for the attempt to introduce it. I am left speechless by such a mode of interpretation.

Even more important to the discussion, however, is Heimann's complete disregard of my insistence, from first to last, that the shift from capitalism to socialism cannot be undertaken without the support of the majority of the population. Nowhere does Marx advocate the dictatorship of a minority political party; on the two or three occasions in which he refers to "the dictatorship of the proletariat" he has in mind a functioning and functional workers' democracy whose coercive aspects are directed against overt attempts to undermine the new legality. Engels pointed to the Paris Commune, in which the fraction of the First International was a small minority, as an illustration of the dictatorship of the proletariat. Irrespective of the Marxian texts on this point, I myself have passed the severest strictures on the belief in a party dictatorship wherever it has appeared (this is recognized even by Heimann in his book *Communism, Fascism, or Democracy?*, p. 148 note).

Heimann's failure to state accurately my position on workers' democracy becomes most significant when we consider his main charge against me, that is, that I have advocated a policy of duplicity in relation to the peasantry and petty bourgeoisie. For only if I were committed to a belief in party dictatorship would he have any shadow of justification for his interpretation. As it is, it is wantonly gratuitous, and the way he goes about making it violates the decencies of intelligent discussion. There have been three occasions on which he has made this charge. On two of them (in an earlier article in *Social Research* and in his book), he has quoted the short half of a sentence and ignored the half in which I explicate what is meant. In his May article in *Social Research* he quotes the short half in the text, and in a footnote dismisses the rest of the sentence as meaningless. The sentence reads: "Concessions to these groups [the petty bourgeoisie and peasantry] must, of course, be made but only with an eye to their ultimate withdrawal, or more accurately, with relation to a program of social activity which, by nullifying the antisocial effects of these concessions, render them in time superfluous" (italics here mine).

The immediate context indicates that the question under consideration is how to negotiate differences between the various groups which are temporarily allied without driving a large section into the arms of reaction and without emasculating the socialist program to a point

where it remains nothing but a pious wish. Both political expediency and moral principle demand that as far as possible compromises be made. These compromises may be very dangerous but they are worth risking if the latent opposition between the groups which are united only by a common opposition to a common enemy is to be prevented from boiling over into active conflict. At the same time, social and educational measures, *adopted openly before the eyes of the community by its democratic representative bodies and not by the secret decree of a political party*, may evoke those new incentives and values which will counteract the dangers of the compromise. The general situation is not unfamiliar. The early history of the United States when sectional and state interests often clashed is full of relevant illustrations.

I made no attempt to outline a specific agrarian policy for a socialist government. But I can readily conceive the desirability of making the broadest concessions not only to non-socialist agrarian groups but to others as well, provided that at the same time this is accompanied by a constructive social policy which prevents these concessions from having consequences that jeopardize the larger objectives of the socialist movement. Wherein does the "cheating" lie, especially since it is postulated that the protective social measures are adopted by political mechanisms which insure a democratic consensus?

A very crude analogy on a more prosaic plane may clarify the intent of my remarks. In a certain community it may be necessary, in order to wipe out banditry, to enlist the aid of the poachers and grant them immunity from prosecution. Giving them arms, of course, increases the danger that poaching will become even more widespread. Yet by such measures as corralling the game in state parks, choosing the game wardens from the poachers' ranks, improving the living conditions of the poachers by making accessible other avenues of employment, it may be possible to safeguard the wild life of a region. After a sufficient length of time has elapsed and banditry has been eliminated, an educational campaign against poaching, combined with the other positive measures enumerated, may lead to a new attitude toward poaching. This new attitude may, after open discussion, eventuate in the passage of a law lifting the future immunity of poachers from prosecution. This analogy is *not* designed to show that farmers are poachers but is intended to illustrate how concessions may honestly be made and honestly withdrawn through democratic procedures.

Although Heimann quotes the second half of my sentence in a footnote, he dismisses it as a meaningless qualification. "It seems to

me," he writes, "that if the concessions are not antisocial they are not 'superfluous' and may be kept on." Superfluous is used in the sentence quoted as synonymous with unnecessary; and there may be all sorts of reasons why something which is unnecessary, especially when it takes the form of a recognized privilege, albeit one seldom invoked, should be eliminated (royalty in England has certain political privileges that it never invokes but there are many Englishmen, such as H. G. Wells, who find good social grounds for advocating their abolition). But no matter whether this half of the sentence makes sense to Heimann or not, it is obvious that it is only by his arbitrary disregard of the fact that whatever decisions are taken express the wish of the democratically elected representatives of the community, that he can blithely father on me a position which is so flagrantly different from my own.

I wish to add a brief word about some of his other observations. He refers to my discussion with Professor Dewey (in *The Meaning of Marx*) as if in that discussion I had held that war and fascism can be combated only by a revolutionary movement in which one of the co-operating groups suppresses, outlaws and cheats the others. The reader need only consult the reference to see that the chief reason why I so carefully distinguished my views from those held by the communists is precisely their advocacy and practice of the methods Heimann ascribes to me. It is not without interest that Professor Dewey and I are agreed that the only difference between us on this issue is one of fact. He believes it probable that a socialist program can be achieved without any opposition from those whose vested interests are adversely affected, except as expressed in the course of democratic social and political processes. In this Dewey is at one with Marx as far as America is concerned. Although I hope he is right, in the light of past American and present European history I am not so sanguine. I think the probabilities are that no matter how circumspectly and considerately a socialist government carries out its democratically derived mandate to re-organize productive relations, there will be a "pro-slavery rebellion" by one or more minority groups. Any policy which looks toward socialism in our time must at least be prepared for this. One would imagine from the overtones of Barthian theology and antiquated psychology in Heimann's writings that he would take an unoptimistic view of the behavior of reactionary groups and military castes. But this is not a theological question; scientific historical and psychological analysis alone can furnish relevant data for answering it.

In a footnote Heimann declares it is quite possible that since 1933

when, he alleges, I believed in "revolution at any price," my views may have changed. Not only is it untrue that I have ever believed in "revolution at any price" but I am unacquainted with anybody, not an inmate of an insane asylum, who does. There is far more evidence to show that Heimann believes that revolution is never justified, no matter how odious a tyranny may be, than there is that I believe in revolution at any price. My views on many matters have certainly changed in the light of world shattering events since 1933. Only those who imagine that the voice of history speaks through them can escape learning from it.

The most important subject on which my views have been modified is Russia. Although always critical of her ideology and of many features of her political practice, I did not anticipate that she would persist in imposing a course of action upon the German Communist party which, together with Social Democratic policy, prepared the way for Hitler. Since 1933 developments within Russia have been such as to convince me that far from being a socialist state, Russia is a bureaucratic police state with a mixed economy. In relation to the international working class her role is becoming more and more comparable to that played by Russia in the Holy Alliance of a century ago. In reflecting upon the causes of Russia's betrayal of every important socialist ideal and of the foreign political organizations she controls, I have come to the conclusion that they are to be found not so much in the theory of socialism in one country, as Trotsky maintains, but in the substitution of a minority party dictatorship for the Marxian conception of workers' democracy. Although the Bolshevik leaders often gave lip allegiance to the latter, a careful evaluation of historical events and documents, previously taken for granted, has revealed that this was never their real theory or practice. The monstrous results of Stalin's regime grew from seeds already planted in Lenin's time.

So far as I am aware, however, on the theoretical questions relevant to Heimann's discussion my views have not changed since 1933, although there are some things which for the sake of greater clarity of communication I would emphasize differently today. In my interpretation Marx is neither a monist nor a dualist in his social philosophy, nor is he a pacifist or German Social Democrat or Russian Bolshevik in his politics. He is a revolutionary socialist for whom socialism without democracy and intellectual liberty is a contradiction in terms. His method is empirical and any or all of his conclusions on matters of fact are subject to further scientific verification. Although

his socialist ideals were framed in the context of his study of the economic development of capitalism, they cannot be logically deduced from that knowledge alone. The ways and means of realizing his socialist ideals follow not merely from a knowledge of economic tendencies but from a scientific analysis of tradition, social psychology and the like. All means employed must be such that the consequences of their use are not incompatible with the socialist ideals that are professed.

Some critics have said that this is not the philosophy of Karl Marx but my own, and that I am pouring new wine into old bottles. Perhaps; but as I understand Heimann he is not criticizing the source of these views but the views themselves. Whether they are Marx's or not, I regard them as valid.

My primary concern in this rejoinder has been to establish Heimann's failure to give an accurate presentation of the position he is criticizing. Limitations of space prevent me from dwelling upon the numerous distortions of historical record with which he attempts to bolster up his strained interpretations, or upon the question-begging conceit that his policy of cooperation with workers and peasants is either new or untried in Marxian theory and practice. One illustration must suffice. He asserts that as a result of the program of deceit of potential allies adopted in Russia, and presumably approved by me, "the German peasants . . . reacted by setting up fascism." This is referred to as a fact that any "student of political science should know." Heimann's political science is apparently cut to order to suit the purposes of his polemic. Hitler came to power as a result of the pressure put upon Hindenburg (who was the candidate of Heimann's own party, German Social Democracy) by the Prussian Junkers, who feared that their estates might be divided up. The victory of fascism in Germany may be attributed to a conjunction of the following causes, listed in the order of their weight: the psychological and economic consequences of the Treaty of Versailles; the severe and prolonged crisis of German and world capitalism; the policy of the German Communist party, directed by the Stalinist International; and the policy of German Social Democracy. Only the last two represent controllable factors as far as the German people themselves were concerned. Big business had more to do with the genesis of German fascism, and Prussian Junkertum more to do with its accession to power, than peasant discontent with "the program of deceit." The peasants were only one of the groups which gave a qualified support to the Nazis, largely because of the anticapitalist demagogic of their propaganda.

Heimann's view that the German peasants set up fascism in Germany as a reaction to what was happening in Russia is as false as any historical doctrine can be.

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## REJOINDER

IT IS an accepted Marxian doctrine, which I consider right, that while an ideology is a distorted truth designed to serve particular interests, its advocates may personally be entirely sincere and need not be at all aware of their precarious position. The thesis of my article was that when Marxism substituted the theory of the revolutionary situation for the older and more comprehensive theory of ripening conditions it chose the proper ideology for its declining phase. If this cast any doubt on Professor Hook's personal qualities I am the first to regret and to wish to dispel such an impression. The presence of complimentary remarks in my article is indicative of my intention to prove a gross inconsistency not a deliberate maliciousness in Hook. He will agree with me that what matters in political science is not the declamation of logical, moral or, for that matter, political principles as such, but their application in institutions. Hence when he rightly asserts that the economic factor has only a conditioning and not a determining influence in history everything depends on the use his interpretation makes of this factor. It is not slander or "an elementary logical fallacy" to suspect him of revolutionary voluntarism when he does not properly weigh the influence of economic conditions on men. That this is not done is my point. Likewise his democratic confession is of little scientific use unless it includes a proper regard for the different groups composing that democracy. That this is wanting is again my point.

Hook's reply makes these gaps even more evident than does his book. He finds economic conditions ripe for an all-inclusive socialism in agriculture as in industry, and concludes that socialism will be established by a majority decision. My criticism has not succeeded in calling his attention to the inner contradiction in the fact that socialism claims to be of a democratic character in spite of the fact that the

industrial workers, even when united for socialism, constitute only a minority, with the farmers in the opposite camp—as is the case in all countries. Hook protests that the concessions designed to win a majority for socialism are meant seriously and honestly and can be canceled only with the consent of those favored. This exonerates him from the charge of deliberate deceit leveled in my article; I am glad to revoke it. But it does not improve his scientific or political position. For now moral persuasion must bridge the gap between democracy and a minority urge to socialism; the millions of farmers are expected to give up their individual holdings voluntarily. If this program is surely unobjectionable from a moral point of view it is politically even more fantastic than was the meaning I had imputed to it, and it is the very climax of that idealism and voluntarism which disregard the economic conditions of human action.

The way that Hook looks upon this problem, which is the focus of our discussion as well as of the present social-political tangle, can now be seen from the analogy he draws between individualistic farmers and the poachers upon whom a community calls for combating worse forms of banditry. It is an unfortunate analogy because the farmers' form of existence and work may be entirely sound, tenable, capable of development, and morally and politically legitimate. (In a proposition bluntly assailed in my article and not referred to in his reply, he had denounced as a system of exploitation any system in which the means of production are not held in common; this includes a system in which individual properties are held by farmers and other independent producers.) And a final evidence of Hook's position on this focal problem is the fact that in his book of more than 300 pages the problem of winning the support of non-labor groups in order to form a majority for socialism receives only those few lines which have provoked our controversy, and the agrarian question is not referred to in the index at all. In fact it is with surprise that I now learn that his "workers' democracy" is supposed to be a real and comprehensive democracy of the entire working population; I had understood it as a democracy for industrial workers only, for the name, while precluding, of course, a one-party state, allows of both interpretations. I had understood it in this way because I find in Hook's book no scientifically and politically serious attempt to reconcile democracy with the minority position of the advocates of socialism.

Among Hook's personal remarks on me there is one to which he appears to attach some relevance to the subject of our discussion. Lest I be suspected of dodging the issue I shall discuss it briefly.

Referring to my "organizational connections" instead of consulting my German writings he uses several occasions to suggest that I share the responsibility for the German brand of trade union materialism, or for the policy of the Social Democratic party of Germany, and that my article may be intended to defend that party against his strictures. It happens, however, that some time before Hook I had analyzed the belief in an automatic development to socialism as the ideology of an inert party and of trade union bureaucracy. In several publications (I had not found this worth mentioning in my article) I had also anticipated his contention (which I quoted with my approval in my article) that the historical necessity of economic development only sets the task, leaving to the intellectual and moral forces of men the solution. Hook attributes the fascist victory in Germany to four causes, among which the policy of the Socialist party is only the fourth; in my book I have contended that the main responsibility rests with that party, although my reasons are different from Hook's. It is true that I joined the party, but only in December 1926, in its decline, when the hour of danger was approaching and I believed that the party's state of disillusionment and bewilderment might predispose it to the adoption of certain new ideas. The measure in which this expectation was frustrated has found a tragi-comic documentation in the literature.

EDUARD HEIMANN

## SECURITY PRICES, INVESTMENT VALUES AND SPECULATION

HAROLD, GILBERT. *Bond Ratings as an Investment Guide*. New York: Ronald Press. 1938. 274 pp. \$3.

BOSLAND, CHELCIE C. *The Common Stock Theory of Investment. Its Development and Significance*. New York: Ronald Press. 1937. 154 pp. \$2.50.

WILLIAMS, JOHN BURR. *The Theory of Investment Value*. Cambridge: Harvard University Press. 1938. 613 pp. \$5.

SIMPSON, KEMPER. *The Margin Trader. A Study in Trade in Securities and Insecurity in Trade*. New York: Harper. 1938. 170 pp. \$2.

ROSS, JAMES ALEXANDER, JR. *Speculation, Stock Prices and Industrial Fluctuations. A Study of the Effects of Stock Speculation on Stock Price Movements and the Influence of These Movements on Production and Business*. New York: Ronald Press. 1938. 426 pp. \$4.50.

MACAULAY, FREDERICK R. *Some Theoretical Problems Suggested by the Movements of Interest Rates, Bond Yields and Stock Prices in the United States Since 1856*. [Publications of the National Bureau of Economic Research, no. 33.] New York. 1938. 240 pp., appendix 351 pp. \$5.

The scientific literature on security prices falls far short of what one would expect in view of the interest that would be aroused by successful ventures in this field. Of course a considerable number of valuable studies have been written about special problems. Besides, there is an enormous heap of popular treatises which claim to disclose the secrets of successful speculation and investment, not always devoid of common-sense and sharp observations. But there exists no comprehensive monograph on stock prices or on bond prices, written in English, nothing that could be compared to Otto Donner's *Kursbildung am Aktienmarkt*, published by the German Institute of Business Research in 1934.

Recently scientific activity in this field has become more intensive. This is due partly to the increased interest in the stock market which was stimulated by the rising prices in 1935-37, partly to the enormous material about stock market practices accumulated during the Congressional hearings of 1932. Not least, the activities of the Securities

and Exchange Commission, predominantly its attempt to purify and regulate speculation on the stock exchanges, have contributed to focus attention on the problem of security prices.<sup>1</sup>

The books reviewed here deal with very different aspects of the problem. Harold and Bosland are concerned with the evaluation of prevailing opinions about common stocks and bonds as investments. John B. Williams tries to build up a "theory of investment value" of securities, which does not intend to analyze and explain the action of the market but might be used to check on the reasonableness of actual security prices. Conversely, Simpson and Ross are engaged in an analysis of the effects which speculation has on stock prices, business and the business cycle. Finally, F. R. Macaulay marshals statistical data concerning bond yields, interest rates and stock prices for as many as eighty years back as a basis for important considerations on the structure of our economy and of our economics.

Harold's appraisal, *Bond Ratings as an Investment Guide*, tests the ratings given by the four leading agencies (Fitch, Moody, Poor, Standard Statistics) to 363 bond issues for which comparable data were available from July 15, 1929, to July 15, 1935. Harold groups these bonds according to the ratings given them by the agencies and follows the fate of the groups: the change in price and yield and the frequency of defaults through the six years.

On the whole, the bonds behaved in line with the ratings accorded them. At the end of the six years bonds which were rated highest by all agencies in 1929 (AAA, Aaa, A\*\* or Aa+) had increased in market price by about 1 to 7 per cent, bonds of the next grade had lost almost 8 per cent, of the third grade approximately 10 per cent, of the fourth grade about 19 per cent, of the fifth grade about 28 per cent, and those of the lowest grades about 34 per cent. Likewise, the percentage of defaults increased rather steadily with the transition to lower grades. Among the agencies Moody appears to have been the most, Fitch the least, successful.

So far the relative showing of the bonds testifies to the success of the rating system. But the success is far from complete. First, in the rating of every agency it happens at least once that a group of a lower grade fares better than one or two groups with a better grade. Second, even among the bonds rated best are some which have defaulted and which

<sup>1</sup> The outstanding earlier product of this interest was the Twentieth Century Fund's very valuable publication on *The Security Markets* (edited by Bernheim and Schneider) in 1935.

have declined in price to less than half of what they were. Third, the fact that the ratings accorded to the single issues in 1929 were very often changed subsequently is a clear indication of errors committed previously. Fourth, if someone relying on the ratings had systematically exchanged low-yield bonds for high-yield bonds of the same grade, he would have lost more in market value than he would have gained through higher returns. If, however, bonds of lower yield and lower grade had been exchanged for bonds of higher yield and higher grade the switch would usually have been successful.

One valuable result brought out by Harold is that selection of bonds on the basis of "pessimistic rating," which means rating according to the most cautious appraisal of the four agencies, is notably more reliable than consistently following the advice of any one agency. Switching operations based on "pessimistic ratings" would almost always have been profitable.

Harold, while conceding that ratings "operate quite effectively to protect the investor against loss," a record "certainly beyond reasonable criticism," takes sharp issue with the claim of some agencies to accomplish scientifically accurate evaluations of high perfection. Rightly he declares that prediction is as necessary a part of the rating process as analysis, and that no perfection is possible.

It may be that Harold's rating of rating is still a little too favorable for the rating agencies, though he can be accused of no bias for or against. The crucial test for the value of bond rating is not applied by Harold. This test consists in a comparison of the results of agencies' rating and of market rating. Have the hundred bonds that had the lowest yield in 1929 fared equally well, better or worse than the hundred bonds which were rated highest by Poor or Moody, Fitch or Standard Statistics? Only if agency rating proved to be superior to market rating would the value of the agencies' work be definitely established. Such procedure, it is true, might contain a certain bias against the agencies, in so far as the market price already reflects the judgment of the rating agencies, for if the market proves to be right the merit may partly belong to the agency.

The question of whether or not changes in the rating influence the action of the market is, according to Harold, not answered unequivocally by the facts. Harold, however, shows only that all possible kinds of price movements have been associated with changes in the rating. He has not ascertained the frequency of the different reactions. Also, he has left a certain gap by not exploring the reasons for the failure of the rating in the most remarkable individual cases. Such analysis

might bring out whether there have been clear deficiencies in the technique of rating or whether the failures have been due to unpredictable developments which nobody could be blamed for not having foreseen. Harold's opinion is unconvincing that high-grade bonds do not need diversification, as do bonds rated low. His results show, on the contrary, that common bonds rated high by the agencies are more or less subject to declines in market value and even to default. If there is diversification the losses are not likely to surpass relatively low percentages. Low-grade bonds, on the other hand, are demonstrated to be unsafe investments. In the period under scrutiny no diversification could have protected the investor in these bonds from suffering heavy losses.

In Bosland's *The Common Stock Theory of Investment* the computations made during and after the New Era by Smith, Van Strum, Rose and others are summarized but are not supplemented by further computations. None of these computations has been exhaustive enough to permit a definite judgment about the profitability of common stock investments in the past. Mostly we are informed only of what has been the outcome of investing in a more or less arbitrarily selected group of stocks during more or less arbitrarily selected periods of time. As a rule, these computations have proved the superiority of stocks as compared with bonds, but at the same time have demonstrated how important the moment of purchase and the moment of sale have been and how differently various industries have fared. There exists only one comprehensive study—that by Kellogg and Kilbourne—which covers all those common and preferred stocks, as well as bonds, which were quoted on the New York Stock Exchange both in 1922 and in 1933. This study indicated that over this whole period bonds maintained their value better than either preferred or common stocks, but as Bosland correctly observes, the comparison, for several reasons, favors bonds.

Over the greater part of the last few decades, however, there is statistical evidence that common stocks tend to rise in value, but Bosland emphasizes that the reasons which have been advanced to explain this tendency are more significant than the statistics themselves. Only analysis of the underlying reasons can furnish a basis for correct predictions.

These reasons have been assumed to lie in the habit of American corporations to reinvest about half of their annual earnings, in the growth of population, especially urban population, in the tendency of

commodity prices to rise and of interest rates to decline. Since neither the change in prices nor the change in the interest level counted for more than a minor part of the increase in common stock values during the decades preceding the great depression, and since undistributed profits can enhance stock values in geometrical progression only if profitable investment of additional funds is always possible, the upward trend of industrial production in the United States is credited to be the decisive factor. More emphasis than appears justified is given to the sharp increase of total corporate profits (not profit rates!) during the twenties, for this does not prove very much. On the other hand, the fact that a relatively high percentage of corporations reported no net income during that period is overrated as a symptom of profitless prosperity. Later in the book Bosland furnishes the important clue to the understanding of the "New Era": the spreading knowledge of the profitability of common stock investments raised stock prices. And I believe he is right in concluding that the wider such knowledge spreads and the more stock prices are adjusted to discounted future earnings, the smaller becomes the likelihood that large profits can continuously be made from common stocks in the future.

Apart from this statement, the author does not commit himself to very definite forecasts. Although he reports that population and industrial production have increased and will continue to increase, though at decreasing rates, although he mentions social and political tension as disturbing factors, he nevertheless believes in well selected common stocks as a profitable investment if they are properly diversified, eventually hinting at the common stocks' superiority in the event of an inflation.

The problems touched upon cautiously by Bosland are attacked in a most intelligent, provocative and daring manner in John B. Williams' *The Theory of Investment Value*. To do full justice to this book is no easy task. The author, full of ideas, is as good an observer as he is a keen analyst and a catching writer. But he does not care very much for confirming his observations by statistical evidence, and occasionally the reader has to remind himself that it is opinions, not facts, that he is asked to accept.

In the second part of the book the investment value of six common stocks is analyzed. The methods and formulae applied in these studies are elaborated in the first part of the book. Here the author develops also his ideas about the future of corporate earnings and of the interest rate, as well as about the prospects of inflation. His attention is con-

centrated on the political issues: the effects of labor unions' activity and of taxation.

Williams expects little benefit for labor as a whole from increased unionization, and apparently relatively little damage to profits. The main effect of the C.I.O. movement he sees in a pressure toward inflation.

Increased taxes appear to him by far a greater menace to capitalist enterprise and the progress of capitalist economy. Taxation of property and of corporate income is held to result in diminished earnings, although it is mentioned occasionally that these taxes may be compensated by higher profit margins. High income and estate taxes and taxation of corporate profits result in decreased savings and eventuate in decreased investments, according to Williams, who is convinced that oversaving is not a danger. Since he believes that undivided profits compensate only for the obsolescence not accounted for by depreciation, and serve only to maintain, not enhance, the earning power of the corporation, the tax on undistributed profits is criticized as a tax on progress.

Williams links the prosperity of the late twenties to the reduction of the wartime surtaxes, and blames the continuance of the depression on the tax legislation of the New Deal: the New Deal taxes have greatly impeded the launching of new ventures, the more so since tax-exempt securities have been available for the investment of the wealthy.

To indicate single points of agreement and of dissent is beyond the limits of this review. Thus only two major objections shall be raised. The one concerns Williams' attitude toward budget deficits. Williams stresses the inflationary effect of deficit spending and charges the deficit with discouraging new enterprise, because of the higher tax burden which it foreshadows. The stimulating "pump priming" effects are not even mentioned. This is the more surprising as "income deflation" by social security taxes is clearly envisioned. The second objection concerns Williams' opinion that no "oversaving" is to be feared, that, on the contrary, savings in the future are likely to run short of investment needs. Upon what evidence is this opinion based?

Apart from the curtailment of savings as a result of taxation, Williams expects savings to decrease because of lower interest income, resulting from lower interest rates and from the expected cut in the capitalization of railroads. The demand for capital funds is not expected to decline considerably. No important invention is in sight at the present moment, but the gasoline engine, in Williams' opinion, has not yet spent its full effect in relocating residential districts, and

great capital demand will arise from progress in the methods of construction. To the decline in the rate of population increase not much importance is attached; the decline itself is interpreted as a desire to raise the standard of living. Many technical innovations would become profitable, moreover, if the rate of interest would stay below the pre-war level. Wars and armament will keep capital demand high all over the world. On the other hand, the provisions of the Social Security Act are regarded less as a relief for the capital market than as a deflationary factor. Thus the final conclusion is that "the reduction in the supply of savings as a result of worldwide overtaxation and the increase in the demand for savings as a result of general rearmament would offset whatever slackening may occur in the peace-time demand for savings as the result of fewer new inventions." In consequence, interest rates are expected to rise and "were it not for the fact that higher taxes increase the speed between gross and net interest rates and tend to depress the market rate, the market rate might be expected to go even higher than in the 1920's."

Maybe Williams is right, and those who, like the reviewer, are concerned about a long-term tendency toward oversaving, are wrong. But looking at the arguments contributed by Williams and at the guesses made by Colm and myself, I remain convinced that the apprehension of oversaving is somewhat better substantiated than the opposite view. The important decline in the increase of employable persons is taken too lightly by Williams, and not enough consideration seems to be given to the fact that in the twenties savings and investments were balanced by the coincidence of a number of favorable factors, not the least of which was the spending of realized and unrealized stock market profits.

From his analysis of the future supply and demand of capital Williams concludes that the rate of interest will be higher than is forecast by the relation between the yields of treasury bonds of different distant maturities, and that the prices of long-term bonds in June 1937 were too high. This opinion is strengthened by the author's ideas about inflation, by which he always means a rapid rise in prices, regardless of the underlying cause. He distinguishes—and this distinction goes to the crux of the matter—between those measures, like devaluation, which would only *permit* inflation, those, like the deliberate creation of federal deficits, which might *provoke* inflation by inciting a flight from the dollar, and finally those which, by increasing money incomes and forcing up the cost of living, would *compel* inflation. Among the measures compelling inflation he counts public spending and public

encouragement of the workers' demand for higher wages. The real danger of inflation he sees less in the degeneration of a boom than in a new depression before full recovery has been attained and the budget has been balanced. But actual experience so far has disproved his contentions. Not only has the price structure been somewhat more elastic than Williams expected, but public spending has become increasingly acknowledged as a necessary stimulus which need not lead toward inflation.

Disagreement on numerous scores does not preclude an acknowledgment that Williams' discussion is always stimulating. The enduring value of his book, however, rests in the apparatus he has prepared for gauging the investment value of securities. I do not feel competent to pass judgment on the accuracy of his formulae. But while pleading incompetency in this respect I wish to voice admiration for the economic content of Williams' formulae. Strictly adhering to the position that it is ultimately dividends, not earnings, that determine stock values, Williams develops formulae for the investment value of stocks and bonds under a set of assumptions. These include the assumption that earnings or assets will grow at a certain annual rate, but since this growth cannot go on forever it is assumed, too, that the rate of growth will decline and finally will become nil. He has also covered the influence of changes in capitalization and of mergers and has dealt with the value of rights and warrants. Before Williams' book such conditions had not been translated into formulae; it was necessary to muddle through by adjusting the price-earning ratio applied in the computation. The value of the new approach is demonstrated by its application to practical cases, especially in the public utility field.

In estimating the investment value of bonds and stocks Williams gives special consideration to the influence of inflation. He argues that the prospects of an inflation depress the investment value of bonds but do not enhance the value of common stocks, except for the stocks of those corporations which have fixed interest securities outstanding. He believes that the upward trend in stock prices has been due largely to rising prices and the corresponding depreciation (in purchasing power) of senior securities, but this belief is not substantiated by statistical analysis.

Williams emphasizes that stock prices might depart from investment values for a long time, but he mentions that some of the most successful operators in the market have thoroughly studied the investment value of securities. As a rule, he holds, the market price does not forecast the unknown future, but moves in conjunction with the

amount of orders received. The example of the United States Steel Corporation, which is cited for proof, demonstrates that the correlation is not particularly strong. Williams supplements his discussion of this tendency by an excellent exposition of the theory that stock prices are determined by marginal opinion, and shows that successful speculation is possible only if the "forces at work" are recognized either by guessing what the insiders are doing or by forecasting coming events and the changes in opinion they will produce.

Kemper Simpson's *The Margin Trader* deals with the problem of security speculation. It is certainly not written *sine ira et studio*. Simpson has acted as economic adviser to the Securities and Exchange Commission. His opinion that security exchanges are necessary, but that security speculation is an evil and that margin speculation is especially obnoxious, appears to have brought him into conflict with leading officers of the Commission and finally resulted in his quitting his position. But *ira et studium*, while not the best basis for detached judgment, may be a good stimulus for raising important questions and soliciting interesting answers. Important questions Simpson has put, and some of the answers that he found he communicates to a wider public through his study of *The Margin Trader*.

Simpson devotes the first two chapters to indicating the extent of margin speculation, to showing the poor results of speculation for the speculator, and to tracing the sources of the funds by which speculation is carried on. The fact that bank deposits are employed in financing margin speculation meets with his disapproval. With full agreement he quotes Dr. Schacht, who replied to an American inquirer that he saw no justification for brokers to borrow at the commercial banks and use "other people's money" for financing security speculation. Strangely enough Schacht did not add that he had the greatest difficulties in preventing the German banks from using their deposits to support stock speculation on margin. Margin buying is after all no peculiarity of the New York Stock Exchange.

Simpson comes to his own field when he discusses the contention of Gay and Aldrich that in recent years the liquidity of the stock market has been destroyed by government interference. Statistical data are presented to demonstrate, first, that the activity of speculation has centered in the market leaders, second, that such speculation has not helped to make markets more continuous, but, third, has accentuated price fluctuations. From the investor's standpoint, he maintains, stability is more important than continuity. The unrestricted stock exchange

favored the speculator rather than the investor. The practical conclusion is that all floor trading should be prohibited "except possibly that of odd-lot dealers and specialists," and that trading by members of commission houses should be carefully regulated.

For such far-reaching conclusions the statistical basis appears somewhat narrow; the period covered is rather short, the number of stocks selected is small and it is not demonstrated that the sample is free of any bias. The reviewer, however, not knowing of the analysis conducted by Simpson, has obtained the same result—that volume of turnover does not guarantee a steady market—although he found no distinct evidence that broad markets are less stable than "thin markets."

Simpson's suggestion to put the market on an outright cash basis rests less on the effect of margin speculation upon the stability of stock prices than on its effect upon the structure and fluctuations of the economy. In line with older investigations, such as that by C. O. Hardy, it is contended that the margin traders' purchases of common stock benefit mainly the larger corporations. They tend, moreover, to facilitate oligarchic rule in these corporations, because the speculators' shares, carried in the broker's name, are put at the disposal of the management. This statement, I think, is correct. But its corollary—that without margin speculation the smaller concerns' situation would be considerably better—is not so well established. Prohibition of margin trading might act as a check on financing as a whole rather than as a means of redistributing the flow of capital.

Such a deflationary consequence, however, would be welcomed by Simpson. For margin trading, apart from favoring the big corporation in its competition with small business, is held responsible for accentuating the cyclical fluctuations of business. The statistical evidence upon which this reproach is based is not fully conclusive, even in Simpson's own judgment. That the spectacular rise of stock prices during the late twenties served as a powerful stimulus to luxury goods industries appears to be confirmed beyond doubt, but no such stimulating effects can be traced to the stock market boom of 1933.<sup>1</sup>

Probably the lack of monthly data also plays a part in the fact that the effects of the 1928-29 boom market on industrial investments were not so strikingly demonstrated by the figures for business construction and for purchases of durable producers' goods. It is likely that the differences would look more impressive if boom and slump periods

<sup>1</sup> The boom of 1933, however, lasted only a relatively short time. It was preceded by the critical first three months of 1933 and followed by a not unimportant decline of stock prices in the second half of the year.

could be accurately segregated. Even as it is, the fact that industry's investment in 1929 was about 14 per cent above the average figure for the years 1925-28 would bear sufficiently strong evidence for the effect of the booming stock market, if this increase of investment could be safely associated with the boom.

But Simpson hesitates to make this association. His own as well as others' investigations have shown that only a relatively small percentage of new security issues have raised new money; and even of the new money only part has been used for actual purchases of goods, according to the prospectuses of the corporations. This is not the place to deal with the question whether the purpose stated in the prospectus of a corporation gives reliable information about the actual use made of the money. But apart from what the answer to this question may be, the data which Simpson gives appear to prove more than what he infers from them. It is true that new money raised by new security issues increased in 1929 by "only" 600 million dollars, or 20 per cent, in comparison with 1928, and by 15 per cent in comparison with 1927, according to the figures of Standard Statistics. But according to the findings of the S.E.C., cited by Simpson, the percentage of expenditures on plant and equipment, real estate and working capital increased from 12½ per cent in 1927 and slightly more than 11 per cent in 1928 to almost 21 per cent in 1929. Thus Simpson's contention that "the margin trader . . . tends to increase the exhilaration of booms" and consequently tends "to accentuate the despair of depression" is better founded than he makes it appear.

Unfortunately his case is weakened by his unsuccessful attempt to designate the rise of stock prices in 1935-37 as a "boom" and to make insufficiently restricted margin buying responsible for this "boom." Except for a limited number of issues the stock market in 1936-37 did not get out of line with what could be called fair investment values under moderately optimistic assumptions, and it is hard to understand why "member banks' total loans on securities amounting to 4 billions in 1937 were probably just as excessive under the changed circumstances as member banks' loans on securities of over 10 billions at the end of 1929."

In his elaborate and well documented study, *Speculation, Stock Prices and Industrial Fluctuations*, J. A. Ross, Jr., arrives at approximately the same results as Simpson. Ross too concludes from the available data that speculation—margin buying as well as short selling—tends to make stock prices less stable, but he takes it for granted—and

here he differs from Simpson—that speculation, by increasing the volume of transactions, makes price movements more continuous. The main evidence for the destabilizing influence of speculation is found in the fact that in the majority of cases purchases by members of the exchange exceeded sales in rising markets, while sales exceeded purchases in falling markets. Short engagements have likewise tended to increase in bearish and to decrease in bullish markets. Even the specialist's equilibrating influence is questioned by Ross, in this case somewhat against the evidence of the data.

Ross' real contribution, however, lies not in his interpretation of available statistics but in the way he formulates the problems and suggests the answers. When dealing with the influence of speculation upon stock price fluctuations he not only emphasizes how much depends upon the quality of speculation—whether it is "value speculation" (tending to adjust prices to investment values) or "move speculation" (tending to adjust present prices to future prices as determined by the market's opinion)—but he also makes it clear that the question whether speculation increases or decreases price fluctuations has to be specified with regard to the time over which fluctuations are supposed to be influenced by speculation. Ross is inclined to believe that speculation not only accentuates the so-called primary cyclical movements of stock prices, but aggravates and sometimes even causes the secondary reactions of prices during major movements. Speculation is also held to accelerate the up and down movements. The means by which manipulation succeeds in generating or exploiting stock price fluctuations are very instructively demonstrated.

Again in agreement with Simpson, Ross believes that stock price fluctuations influence business fluctuations. For some pages he appears on the verge of contending that changes in stock prices are the primary cause of business fluctuations. He reports statistical data which indicate that turns in the stock market precede turns in business by a longer lead than could be explained by an increase or decrease in orders. For corroboration he adduces a table in which highs and lows of secondary stock price movements are compared with secondary slumps and revivals in industrial production. But this attempted proof does considerable violence to the figures, which lend themselves much more easily to the reverse interpretation: that it is the course of business which determines the movement of stock prices.

Somewhat to the reader's surprise, Ross finally turns to the traditional assumption that business conditions are the fundamental cause of stock price fluctuations and that the insiders, and some professional

speculators guided by the anticipation of earnings, stimulate as well as dampen the market's movements, which gain momentum through the participation of the less well-informed. From Ross' audacious beginning there remains now only the sentence: "It is unjustified, however, to conclude that production is the cause without giving important weight to the fact that the movements in stock prices themselves have an important influence on production." This is a little disappointing, but—it is correct.

From several points of view—the methodological, the statistical, the economic—Macaulay's book is a remarkable achievement, and the pride with which Wesley C. Mitchell introduces the work of his friend to the reader is well justified. The figures collected and computed in years of assiduous labor cover the movement from 1857 to 1936 of railroad and municipal bond yields, short-term interest rates, railroad stock prices, bank clearings, pig iron production and wholesale prices. The tables are relegated to a very voluminous appendix. Excellent graphs, however, are spread through the text. There is relatively little comment about the details of the movements and of the relations between the series. It is left to the reader to consult curves and tables. The text is reserved for a minute explanation of the methods which have been applied in the computation of the series, especially the series of railroad bond yields, for an unmerciful investigation as to whether theories about the relation of interest and prices as proposed by Fisher and Keynes are supported by the facts, for an examination of the lags and leads, and for those theoretical and philosophical considerations to which Mitchell's preface especially directs the reader's attention.

The lack of an adequate index number series for the long-term interest rate in the United States has been felt as a great handicap in many economic investigations. The difficulties in constructing such an index number rest in the fact that the yields of United States government bonds, which would lend themselves most easily to such an index, have been artificially lowered by the note circulation privilege attached to them over most of the time. The price quotations of municipal bonds are not complete and reliable enough to serve for more than a check. The only corporate bonds for which information is available back into the distant past are railroad bonds, and of the railroad bonds none can be used for the whole period or even a major part of it. It is necessary, therefore, to chain the index numbers from year to year. But here again an obstacle has to be overcome.

A series of bond yields makes sense only if the quality of the bonds covered remains the same during the period. But how are we to ascertain whether the quality of different bonds has been the same if even identical bonds undergo quick changes in their quality?

To solve the difficulty Macaulay finally resorts to an ingenious trick. He does not use actual bond yields, but uses bond yields calculated from regression lines which show the tendency of bond yields to vary from year to year. The changes of a certain yield in a certain year (it is the yield 4.50 in 1925 which is chosen by Macaulay) are read from these regression lines for subsequent and preceding years. It turns out that the yield curve constructed in this way conforms in shape almost exactly to the average yield of the five bonds selling each year at the lowest yield, and it appears that the calculated, so-called sigma curve is not really needed. But the regression lines yield further important information. If the yields for bonds of lower and higher grade tended to change in equal proportion, the regression lines on a logarithmic table would have a slope of  $45^\circ$ . As a matter of fact, in times of economic distress the regression line has a steeper slope than  $45^\circ$ , which indicates that bonds of lower grade decline in price more rapidly than bonds of higher grade. Conversely, in times of recovery the slope becomes less than  $45^\circ$ , because low-grade bonds rise faster than high-grade bonds. This divergence from a proportional change Macaulay calls "economic drift." He shows that the economic drift—used as a symptom of "confidence" by Standard Statistics—is closely correlated with the movement of stock prices, as is to be expected.

He goes on to scrutinize the relation between bond yields and commodity prices, and to examine Keynes' and Irving Fisher's contentions about this relation. A detailed investigation discloses a number of inaccuracies in Keynes' presentation of the "Gibson phenomenon": the astonishingly strong correlation between high bond yields and high commodity prices. The existence of the phenomenon itself is not questioned. The fate of Irving Fisher's theories is more deplorable. Fisher's older thesis that the interest rate reflects approaching changes in the price level is quickly refuted; it is acknowledged that Fisher himself has discarded this earlier theory. But his later theory that interest rates are correlated to changes in the price levels several years back, the influence of the changes decreasing with the distance in time, is also torn to pieces. It is clearly demonstrated that so far as Fisher obtains good correlations by his method of distributed lags, the cause is only the fact that the farther back the lags are extended, the more the sum of the lags becomes identical with the price level.

But how, after all, can the correlation between bond yields and price level be explained? Macaulay's answer follows the procedure of Thornton, of Wicksell and of Keynes in emphasizing the increased propensity to borrow in response to the higher profits realized or expected in times of soaring prices. In addition he stresses the increased ability to borrow—an argument often used by adherents of the institutionalist line of thinking—and he contributes the important suggestion that the relative increase in the yield of first-grade bonds might result from the increased supply of such bonds in consequence of the improved standing of the borrowers.

The discussion of the relation between commodity prices and bond yields gives Macaulay ample opportunity to reflect on the peculiar methodological situation in economic science, which frequently is compared with developments in natural sciences. What leads him to philosophy is above all, however, the observation of how frequently mankind is wrong in forecasting the economic future. This is brought out first by the behavior of interest rates. The movement of long-term rates does not forecast the fluctuations of short-term rates, except for seasonal variations. Some of the discrepancies mentioned by Macaulay might be explainable, however, on technical grounds. Also I am not certain whether his attempt to derive the market's forecasts of future short-term rates from a comparison between the yields of bonds of different maturities is justifiable.<sup>1</sup> As a second factor, the relation between bond and commodity prices, and the behavior of bonds with and without a gold clause during the greenback period, are cited to prove that the future has not been correctly forecast.

This deficiency of mankind in making correct forecasts is held to be a reason for the recurrence of grave economic disturbances. The correct forecasts made by shrewd individuals or the incorrect forecasts made by most of their fellow citizens do not mitigate but aggravate the difficulties. Improved knowledge may do something to replace bad forecasts by good ones, but such improvement is limited by the complicated structure of modern capitalistic economy. Moreover, a correct analysis helps little, if the force of circumstances prevents men from acting according to their better knowledge—for instance, if people are compelled by their creditors to sell in a falling market against their

<sup>1</sup> In his reasoning it is obviously presupposed that short-term and long-term loans are essentially the same, but I doubt whether this presupposition is correct. A long-term loan is different from a short-term loan. One of the factors which make for the difference is mentioned by Macaulay: the long-term loan is more subject to the risk that the debtor's position will deteriorate during the length of the term.

firmlly held belief that not to sell would be the right thing to do.

On the other hand, the very fact that most people do not forecast is the reason why certain leads and lags between economic events appear with some regularity. We are confronted with the paradox that the better are people's predictions, the more unpredictable becomes the future.

Thus in order to get rid of crisis and depression it does not suffice to extend our knowledge and improve our forecasts. To make it easier for individuals to make the right decision we have to change the economic situation by planned social action.

I do not wish to take further issue with Macaulay as to whether his conclusions follow stringently from the observations to which they are linked. Nor can I go into an analysis of whether the arguments by which he supports the case for intervention are the most important ones. The dilemma of human intelligence in an economy not regulated according to some plan is most admirably stated. No one feels this dilemma more strongly than the economist who endeavors to predict the future of security prices.

FRITZ LEHMANN

## BOOK REVIEWS

ELLWOOD, CHARLES A. *A History of Social Philosophy*. New York: Prentice-Hall. 1938. 581 pp. \$2.60.

This latest book by Professor Ellwood has already found widespread recognition and praise. And indeed it deserves both, for it undoubtedly renders a distinct service to what we may call the organon of the social sciences. This is said not because the author has uncovered new material or established new theories or advanced novel and startling methods; the fact is that in all of these fields he is quite conventional and sometimes even old fashioned. It is said because the author has had the courage to bring to life a most ambitious scientific plan. Within the covers of a not too voluminous book he has offered to us in bold relief the outlines of the growth and development of what constitutes the essentials of social thought in the western world, from the beginning until almost to our own days. The attempt, it appears, has been rewarded with ample success. In any case we now have a most useful compendium, badly needed despite the existence of similar works, and especially valuable for educational purposes—for a discussion of the problems with advanced students.

In the face of the achievement it matters little that over many details of Ellwood's interpretation many a question could be raised and many a controversy could be started. It seems pertinent, however, to touch on two general problems which the book suggests.

The first is the question whether the method employed by Ellwood is adequate to the task he sets out to fulfil. He deals with his subject from one distinct angle which he never loses sight of. He is not interested in history *qua* history. Nor is he particularly interested in the dialectic play and counterplay of ideas and thoughts. What he is alone concerned with is to find out what a man or a period has contributed to the evolution of modern social thought. Every description and analysis of a system of social philosophy or of a social philosopher is followed by a brief, but very distinct and sometimes sharp, criticism as to its value in the corpus of the social sciences.

The advantages of this method are obvious, for it allows a very clear and precise presentation of the material always from the same definite point of reference. But it remains an open question whether the method does not of necessity invite a certain amount of superficiality. The ideas described, analyzed, evaluated, are seen, as it were, in only one dimension. They are torn from their context in time and

place, from their context in society and culture, in a word, from history. No account is given of their peculiar way of growth, of the peculiar position they may have occupied in the period, and of the peculiar meaning that may have been attached to them. The brief biographical sketches, in which the cultural and social background of the scholars is presented, are no compensation and if I am not mistaken, are not meant to be. Moreover, there is no attempt to interrelate various ideas, to interpret the history of social thought as the emergence of one idea out of the dialectic character of another.

It may be objected that an author is completely free in his choice of method, if only his method yields results. But Ellwood's concentration on one method, or his unwillingness to use others, has led to a number of statements that can hardly be justified. His analysis of Plato's social philosophy, for example, leads him to establish direct relationships between Plato's ideas in his *Politeia* and modern fascism and communism. I believe that a more thorough analysis of Plato's philosophy—either a sociological analysis or a deeper understanding of his ideas by way of immanent interpretation—would make it quite clear that about the only reason why Plato can be thought to have anything in common with modern fascism, or communism for that matter, is that scientists have quite wrongly used the same words for things that have meanings almost contrary to one another. And again, Ellwood declares that in Hegel's philosophy of the state and in Nietzsche's philosophy of the so-called superman are to be found the elements that have made for the social "philosophy" that is prevalent in present-day Germany. It is obvious that here too a more thorough analysis would easily show that if there are relations at all they are much more complicated than is suggested, and that Hegel is not the forerunner of what we have today in Germany. Thus it is to be regretted that Ellwood has not made extensive use of the various methods that have been evolved in the long development of the so-called *Geisteswissenschaften*, especially that he has made no use of what is now called "sociology of knowledge." It would have helped to achieve his ends more thoroughly and would have shed much new light on his topic.

The second general question that comes to the mind of the reader is indicated in the fact that the author calls his book a history of social *philosophy*. The question is what place philosophy occupies in the study of social phenomena and hence in the organon of the social sciences. To this question Ellwood seems to have no precise answer. He tells us that science and philosophy cannot be dissociated, that they necessarily belong together, with one dependent upon and auxil-

iary to the other. Yet it seems that in a history of social philosophy, where one of the underlying problems, and perhaps the most important one, is the relationship between philosophy and what is termed "science," a more precise answer becomes imperative. For it seems that only a clear understanding of this problem and a clear answer to it can provide us with a measure by which to judge a system of social thought. In other words, only then are we able to set up that system of criteria which is at the foundation of all Ellwood's efforts.

It seems to me that the answer to this problem is to be found in the notion one has about the fundamental character of the social sciences. Broadly speaking, there are two opinions regarding this problem. According to the one the social sciences, if they are really to be sciences, have to model themselves on the paradigm of all sciences, the modern natural sciences, or rather they have to become natural science themselves. Philosophy has no place in such a science except that it hovers on its fringes as epistemology or logic or the like. In this point of view the underlying concept is of course the Descartian concept of science and philosophy. It is but a logical conclusion that in the last analysis the social sciences must be radically positivistic and—the consequence that Max Weber so emphatically drew—value judgments must be definitely excluded.

According to a second opinion the social sciences cannot establish themselves after the fashion of the modern natural sciences. If they are to be really scientific, that is, really adequate to their subject matter, they must be philosophic in themselves. Here the concept of what science is and by what it is constituted is derived from Aristotle rather than from Descartes. Philosophy, then, does not live on the fringes of the social sciences, but is their very center and their very basis. If so, there can be no opposition between science and philosophy, since they are inextricably interwoven or indeed identical.

The acceptance or refutation of one or the other of these concepts of the social sciences would seem to have significant consequences in dealing with the history of social philosophy. If one accept the first concept most of the treasures of the past become practically meaningless. The social scientist may be interested in the genuine social philosophies of the past as preparatory steps to the establishment of the real social science (called sociology), or he may look on them as more or less wonderful dreams, dreamt by men with great imagination but little scientific discipline, or in the worst cases (as for example Hegel) he may dismiss them as rubbish to be raked and burnt as Cooley once said of the so-called metaphysical and biological systems of the nine-

teenth century. On the whole, the social scientist has to be interested in the achievements of the present rather than in the deficiencies of the past.

If one accept the second concept, the consequence will be diametrically opposite. The idea of progress in the social sciences (from "lore" to "science," as it has been put) must be abandoned and the history of the social sciences must be read anew. Hegel will not necessarily appear absurd, and the study of Aristotle or even Thomas Aquinas may be felt to be *directly* important for an understanding of the nature of the social sciences. This does not mean, of course, that Aristotle—or Thomas Aquinas for that matter—has said everything there is to say. But it does mean that the study of the great social philosophies of the past is of the highest significance and that they themselves are to be taken most seriously.

It seems to me that it is one of the many virtues of Ellwood's book that it raises questions of this importance and puts them squarely before his reader.

CARL MAYER

SIMONS, HENRY C. *Personal Income Taxation. The Definition of Income as a Problem of Fiscal Policy.* Chicago: University of Chicago Press. 1938. 238 pp. \$2.

Till recently most students of taxation agreed that a good tax policy had to be based on the ability-to-pay principle, that is, they advocated a strengthening of progressive income taxation. A good deal of effort, using all the subtle tools of modern theory, was devoted to a philosophical elaboration and refinement of the ability-to-pay principle. But during recent years, with an increase in the rates of progressive taxation, there has arisen a host of practical problems which were certainly observed long before but have become now of foremost importance. Such problems are the treatment of capital gains and losses, of tax-exempt securities, of undistributed profits, the relation of individual income taxes to gift and inheritance taxes on the one hand, to corporate and other business taxes on the other hand, the possible unfavorable effects of progressive taxation on the quantity and quality of capital formation. The attempt to pursue a tax policy according to the ability-to-pay principle appears to have led into a jungle of problems, quite different from the problems which were in the center of the earlier discussion. Justice, economic considerations and fiscal expediency, all of these criteria of a good tax policy, seem to point to different directions for a way out.

In such a situation it is a relief to read a book which presents something like a compass through this wilderness. Suddenly all these insoluble problems no longer appear so difficult. Here is presented a definite orientation for the way out, and guide-posts are erected which lead safely around each of these obstacles on the path of progressive taxation. What we have today is described in not very complimentary terms—"a decorative sort of progression . . . a grand scheme of deception, whereby enormous surtaxes are voted in exchange for promises that they will not be made effective" (p. 219). The author claims that his proposals have "many merits and no serious shortcomings," that they are simple, fair, foolproof and economical (p. 213). Has he really succeeded in unraveling the hopelessly entangled knot of problems?

Simons clearly determines the direction in which to move. Instead of logical deductions it is now a pragmatic definition which is the point of departure. Fiscal policy is not determined by a pure concept of income but the concept of taxable income is determined by the goals of fiscal policy. Following, and surpassing, Adolph Wagner, Simons declares: "The best guide for policy is the principle that income taxes should diminish systematically an objectively measurable kind of inequality" (p. 138). This object determines the income concept. The inequality which ought to be diminished is an inequality in economic power. And following Georg von Schanz and R. M. Haig, Simons defines measurable economic power as the sum of consumption and accumulation in a specific period. From this foundation, which the author fortifies by reviewing the discussion of the income concept, especially as it is developed in the German literature, everything else follows logically. Income in kind, such as the use of one's own house and of other durable goods, capital gains, gifts and inheritances, is income and should be subject to progressive income taxation.

The author admits that in a few instances a full and simple realization of the principle is not feasible. His main concession is that unrealized capital gains should not be taxed, and unrealized capital losses not deducted. If, however, realization is admitted as a practical criterion, then an undesirable cumulation of taxable gains in one year, of deductible losses in another year, must be expected. Here he suggests an averaging device as a practical solution. A special tax on undistributed profits, which he regards as an objectionable piece of "ad rem" taxation in the framework of income taxes, would not be necessary if accumulated profits were taxed when the gains are realized, and if realization, sooner or later, were assured by treating as realization

the transfer of property by gift, inheritance or bequest. Here the author might have mentioned the experience that the canton of Basel-Stadt, in Switzerland, has had with such a procedure.<sup>1</sup>

The author suggests a whole system of practical proposals, all following logically from his goal with a minimum of practical concessions. The merits of this fundamental and straightforward approach are not disparaged by saying that the author has probably oversimplified some of the complex problems with which he deals. It seems to me that he has overrated the role which progressive taxation can play in the whole of the modern tax system. He would like to eliminate "ad rem" taxes, with few exceptions, from the fiscal system. It seems to me that taxation of business as such is warranted from the point of view of fiscal expediency and is justified also by consideration of principles. Business ought to count on a certain amount of costs for government as it counts on costs for labor, material and capital.

Simons does not pay much attention to the economic effects of progressive taxation. He asserts that "the system [which he proposes] would tend to alter as little as possible the course which would have been followed, if there had been no such taxes, in commercial and financial practices and in the management and distribution of private wealth" (p. 213). This suggests a belief that his proposals comply with the classical principle of economic neutrality of taxation, a belief which is not substantiated by an analysis of the economic effects of the taxes under consideration. In the introductory chapter he mentions in a footnote (pp. 20-21) possible effects "on the gambling aspects of enterprise" but thinks that a certain deterrent against risky commitments might be salutary. "At the worst, some measure of inhibition against long-odds ventures is a perhaps inevitable, but relatively unimportant, cost of more equitable tax arrangements." Besides these remarks he does not mention the influence of progressive taxation on the composition of the capital supply. He considers only a possible restriction of the quantity of saving. Simons does not adhere to the theory of "oversaving," certain features of which he calls "intellectual rubbish"; but in the same passage (footnote pp. 23-24) he himself asserts that "our economy is more dangerously exposed to catastrophic deflation than to excesses in the opposite direction," which is to my mind the gist of the so-called "oversaving" or "underinvestment" theory. Simons recognizes that progressive taxation may lead to a cur-

<sup>1</sup> The income tax law of Basel-Stadt is of special interest for the student of taxation because its income concept corresponds more than any other to the definition as given by Schanz and Haig.

tailment of saving at a future time. Then "capital accumulation on the part of governments" rather than "modification of the progression" (pp. 26, 29) should be the solution.

The principle that undesired effects of taxation can be cured not only by changing the taxes but also by a compensatory policy should be seriously considered in each situation. The uncompromising application of this principle in such a situation as would be created if Simons' proposals were fully executed might lead, however, to governmental policies reaching beyond "a program for laissez faire."<sup>1</sup>

GERHARD COLM

SINZHEIMER, HUGO. *Jüdische Klassiker der deutschen Rechtswissenschaft*. Amsterdam: Menno Herzberger. 1938. 312 pp. Guilders 5.50.

Like every nation, the Jews had their own law and their own jurisprudence. Their law and religion were intimately bound together. That is why Jewish law survived the downfall of the Jewish state. The study of its most important sources, such as the Bible, Talmud and rabbinical decisions, was always eagerly fostered within the sphere of Jewish life. As a result of their dispersion throughout the world the Jews also, however, came into early contact with the legal systems of other nations. These systems first assumed practical significance for them when in the nineteenth century, through the granting of emancipation, the state placed under its control almost every field of activity of its new citizens. From that time on, Jewish law lost its validity more and more among the emancipated Jews. With their complete acceptance into European civilization its practice well nigh ceased. It was quite natural that henceforth the Jews should occupy themselves with the law of the state in which they lived. In consequence the relationship of the Jew to general jurisprudence became a problem requiring consideration.

This problem may be approached from various angles. In France, Germany, Holland, England and America the Jews participated early in the study of jurisprudence and in the administration of justice. The article "Jews in Jurisprudence" ("Juden in der Rechtswissenschaft" in

<sup>1</sup> Simons' position probably cannot be fully understood without bearing in mind that he believes in controlling spending by changing the "monetary rules" (cf. his *A Positive Program for Laissez Faire: Some Proposals for a Liberal Economic Policy*, Public Policy Pamphlet no. 15, Chicago 1934). This position has been criticized, to my mind convincingly, by Fritz Lehmann in "100 per cent Money," *Social Research*, vol. 3 (February 1936) pp. 37-56.

*Jüdisches Lexikon*, vol. 4) names the most prominent Jewish jurists, theoreticians and legal practitioners. The question whether inherited talent has led to the comparatively vigorous participation of Jews in jurisprudence can only be alluded to here. To the adherents of the modern race theory that question seems superfluous. To them every Jew is a representative of the "Jewish race," every Jewish jurist a bearer of Jewish legal thought. For this reason the Jews have been excluded from participation in legal theory and practice in Germany. In order to define the guiding principles for the process of eliminating the Jews the theme, "The Jews in Jurisprudence" (*Das Judentum in der Rechtswissenschaft*), was discussed by German university professors in Berlin in October 1936. The discussions and the results of this conference appeared later in print. It is these conclusions which have inspired the work under review.

Its main purpose is to show what the Jews have accomplished for German jurisprudence. Accordingly the scientific work and thought of twelve leading German jurists are presented and analyzed. The choice of scholars is well made. They are immortal names of note, the memory of which will be honored "as long as the marks of German jurisprudence are not stamped out": Friedrich Julius Stahl, Levin Goldschmidt, Heinrich Dernburg, Joseph Unger, Otto Lenel, Wilhelm Eduard Wilda, Julius Glaser, Paul Laband, Georg Jellinek, Eugen Ehrlich, Philipp Lotmar and Eduard von Simson. The author describes their scholarly achievements, seeks to penetrate into their thoughts and to clarify the inner relationship of their teachings and principles. His aim is "to understand the convictions of the individual scholar in order to reveal the inner spring which gave rise to his scientific accomplishments." He attempts to disclose "what the individual Jewish thinker received from the rich store of the science of his day, what new thoughts he added to it, and how these new ideas were received by German jurisprudence." Then, in an "epilogue" of a few pages, the so-called "Jewish influence" in German jurisprudence is analyzed; the problem is examined with respect to the "Jewish spirit," and the catchword *justizprofessorales Rabbinertum* ("the professorial rabbinate") is evaluated. A final conclusion is that there is no evidence that a specifically Jewish mentality existed among those jurists. "The spirit of the Jewish classics of German jurisprudence is a scientific spirit only."

The author, who is himself a competent legal practitioner as well as an excellent scholar of jurisprudence, has shown admirable judgment in assessing the scientific achievement of some of the leading

German Jewish jurists of the nineteenth century. His presentation rests upon a rich juristic literature and upon the biographical sources available. The biographical facts are historically and psychologically well comprehended and stated. To me it seems that the author has greatest success in his sketches of Eugen Ehrlich and Philipp Lotmar, in whose special fields of work he himself is a master. Some of the other essays are not so well rounded. But one is delighted to find here many expressions of respect gleaned from almost forgotten tributes to these men, manifestations worthy of being saved from oblivion. In my opinion the value of the work consists in the fact that the significance of the scientific accomplishment of great German Jewish jurists is brought before a large public, and that the praise given them by their contemporaries and by posterity is recalled to memory.

It is doubtful, however, whether it was at all necessary to offer twelve new biographies as proof that the work of these men was based solely on a scientific spirit and had nothing to do with a specifically Jewish mentality. It seems to me that it could have been done much more simply. It is maintained today that "There is Jewish law, which conforms with the Jewish people's mode of life, and there is German law, which conforms with that of the German nation." Of the twelve scholars treated in Sinzheimer's book, only four belonged to the Jewish community: Goldschmidt, Lenel, Ehrlich and Lotmar. Only Goldschmidt is known to have taken a positive attitude toward Judaism; notable evidence of this is found in his well known letter to Heinrich von Treitschke, which is reprinted on pages 89 to 92. Very few of the other eleven had any relationship with Judaism at all; some were unfriendly or even inimical toward it. Most of them were wholly ignorant of Jewish law. Barely one of them had studied it in the familiar traditional manner. It is therefore inconceivable how these men, who were in every respect emancipated and who had been merged wholly in the German culture, could have acquired the spirit of Jewish law. One could go further and maintain that not a vestige of the specific method of Jewish legal thought can be discovered in them or in their work.

Opinions concerning the value and the effect of apologetic literature may differ. Such works will never eradicate indoctrinated philosophies of life. Only the search for truth can overcome mistaken conceptions. Even if apologetic it is still meritorious to reveal errors, to expose scientific shortcomings and to point out how opinions may be based on opportunistic motives. This could probably have been brought about more impressively, in a more objective manner, if the author

had concentrated particularly on the scientific problems and refrained entirely from arranging the biographical material according to polemic points of view. The controversial discussions could have been better presented in a separate publication of moderate size. The scholarly achievement of the great German jurists of Jewish origin is secure. Certain assertions to the contrary require no refutation. Yet it is an essential and important task to establish, in the individual fields of study, the share that German Jewish jurists may claim in the advancement and the worldwide esteem of German jurisprudence. The work under consideration, even if it constitutes only a beginning, is a valuable contribution toward this goal.

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FREEMAN, ELLIS. *Social Psychology*. New York: Henry Holt. 1936.  
491 pp. \$2.65.

This book is very interesting and challenging to both the psychologist and the sociologist. It introduces many new problems and tackles them in a way not frequently found in textbooks on social psychology. This refers especially to the latter part of the book, which deals with concrete problems of our social institutions, attitudes, opinions and ideals, such as the problem of impartiality in public affairs, of the dynamics of social associations, of the social conditions governing the development of art and science, to mention only some of them. The author shows a refreshing candor in pointing out social phenomena which have usually been more or less taken for granted and have not seemed to constitute problems. He goes into our concrete, everyday social behavior and relations and asks why they are as they are: why do we enter associations, how do they behave, what is their purpose and their destiny, why do they often serve purposes for which they were not founded and why do they decay? Why do we often stress our impartiality in matters of public importance while a closer scrutiny will show that most of the time we are not capable of impartiality at all? Is impartiality possible outside of science? (Unfortunately, the concept of impartiality is not strictly enough defined and remains logically vague.) In answering such questions and many others a great deal of vigorous "debunking" is done.

The thesis is that such psychological processes as repression, rationalization and disguise play a tremendous role in the formation of social attitudes, opinions and judgments. If one goes behind these processes and asks for the reasons why they occur, one frequently

finds economic forces such as social stratification and the struggle of the ruling classes to make their world organization palatable to the less favored groups. It is very interesting to see how the originally psychoanalytic conceptions of repression, disguise and rationalization are here applied to social formations much larger than the family group and its emotional set-up; the author tries to show that recognized social opinions and attitudes, as well as individual maladjustments, may be direct results of our social and economic organization. In this way he transgresses the conception of orthodox psychoanalysis, moving in a direction akin to that of K. Horney and her followers, although Freeman is much less elaborate and more sketchy in his attempts.

This last remark leads to some reservations which have to be made. At the beginning of the book Freeman makes a very definite statement to the effect that all social psychology rests fundamentally on the psychology of the individual, which is for him the classic psychology of stimulus and response, of associations and of the pleasure principle.

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He rebukes such psychological theories as McDougall's theory of the group mind and the field theory of the Gestalt psychologists. All the complicated dynamic phenomena which are dealt with in the book are, in the last resort, to be reduced to the individual stimulus-response pattern, the individual's past experience and drives.

This is the theoretical postulate, but beyond a general formula one does not find enough about just how that reduction is to be done in the concrete case. One is not clear, for example, how to formulate in terms of this psychology the influence of social stratification and economic conditions in Leonardo da Vinci's time upon the development of his art, even supposing that Freeman's interpretation of Leonardo's art is correct. There is a gap between the general psychological scheme outlined in the beginning and the social analyses which follow; one misses the strict and logical application of the psychological theory to the concrete cases.

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- CONDLIFFE, J. B. *Markets and the Problem of Peaceful Change*. Paris: International Institute of Intellectual Co-operation. 1938. 63 pp.
- EINAUDI, MARIO. *The Physiocratic Doctrine of Judicial Control*. Cambridge: Harvard University Press. 1938. 96 pp. \$1.50.
- ELLSWORTH, P. T. *International Economics*. New York: Macmillan. 1938. 529 pp. \$4.
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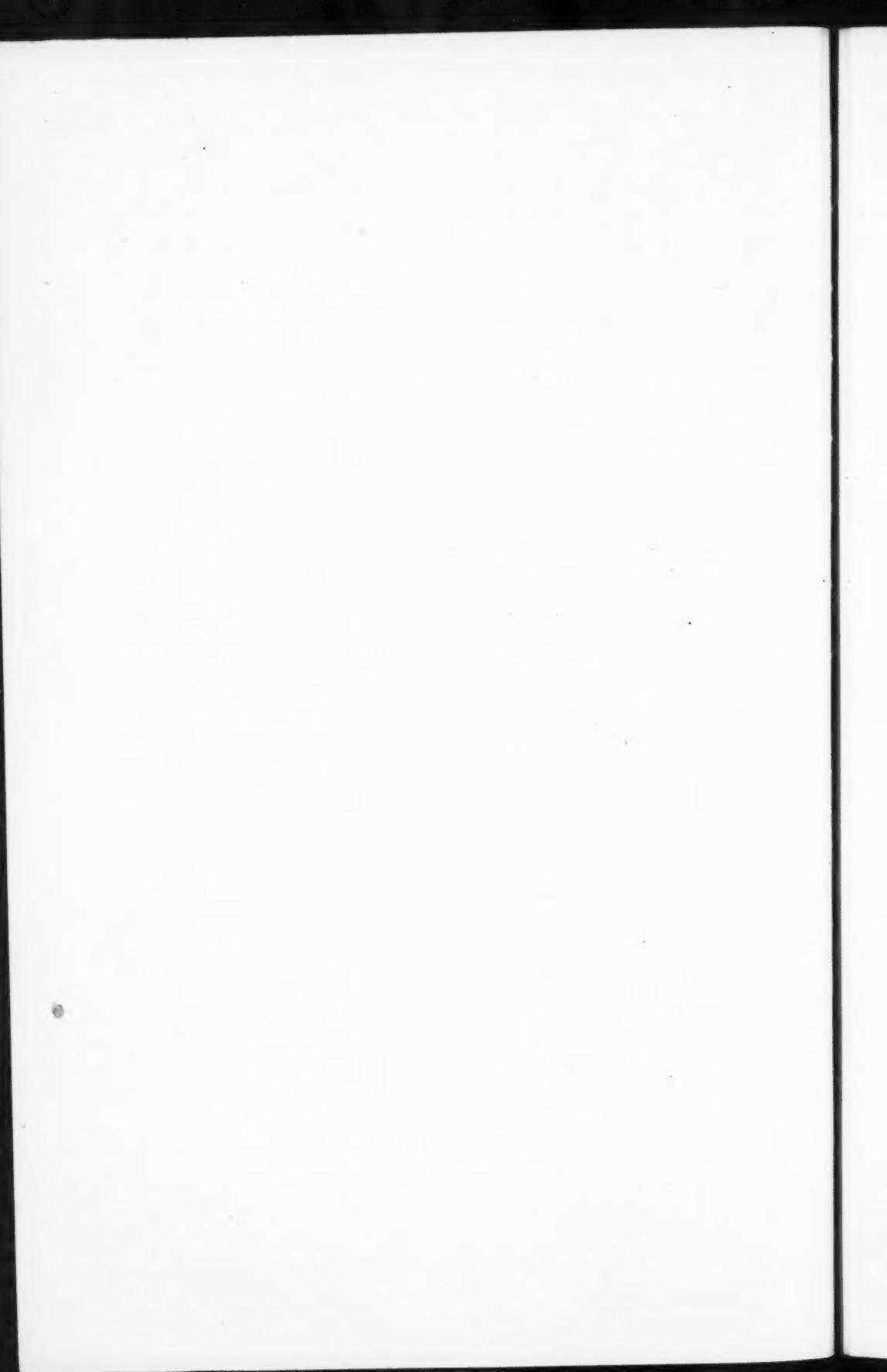
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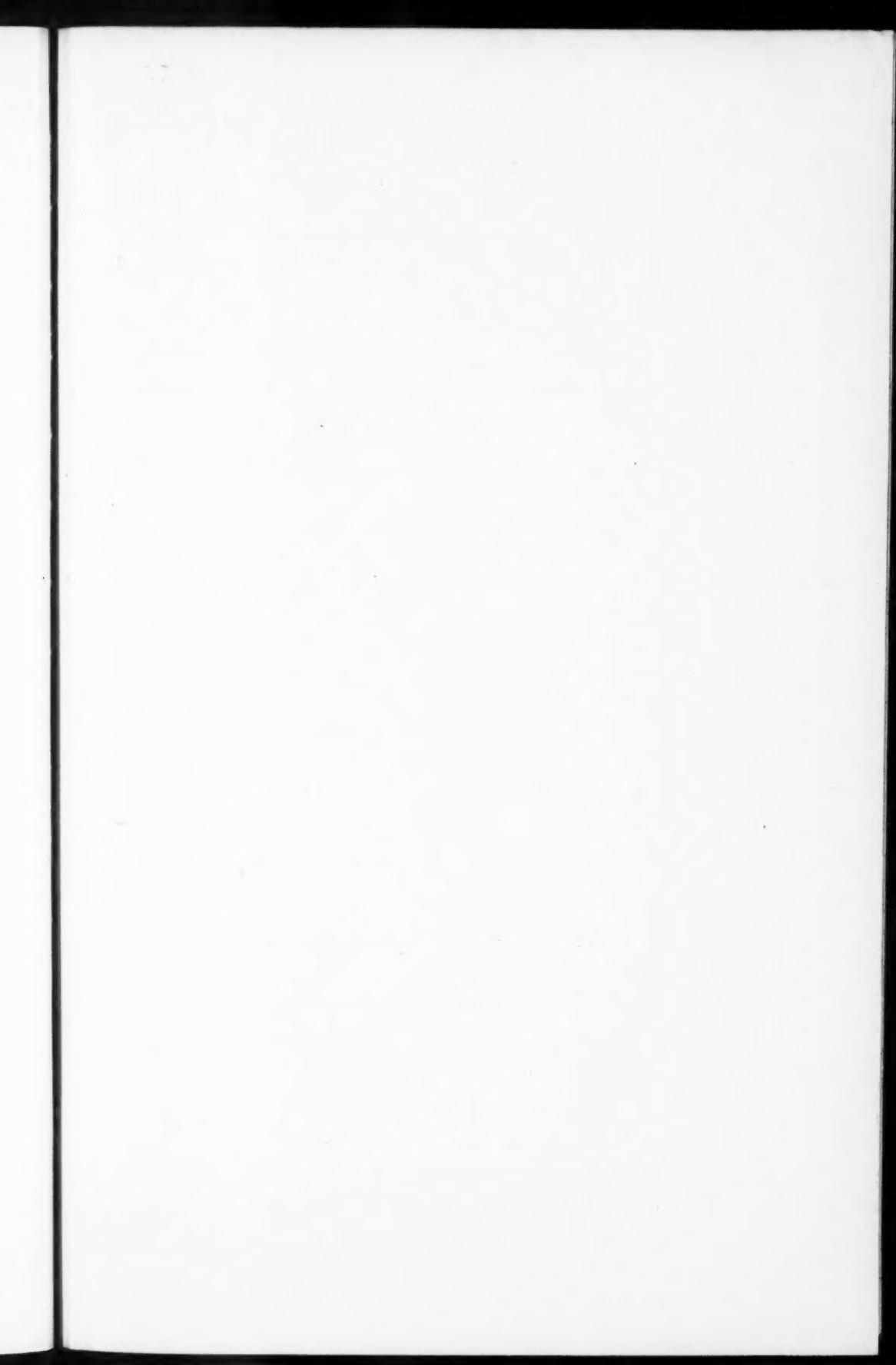
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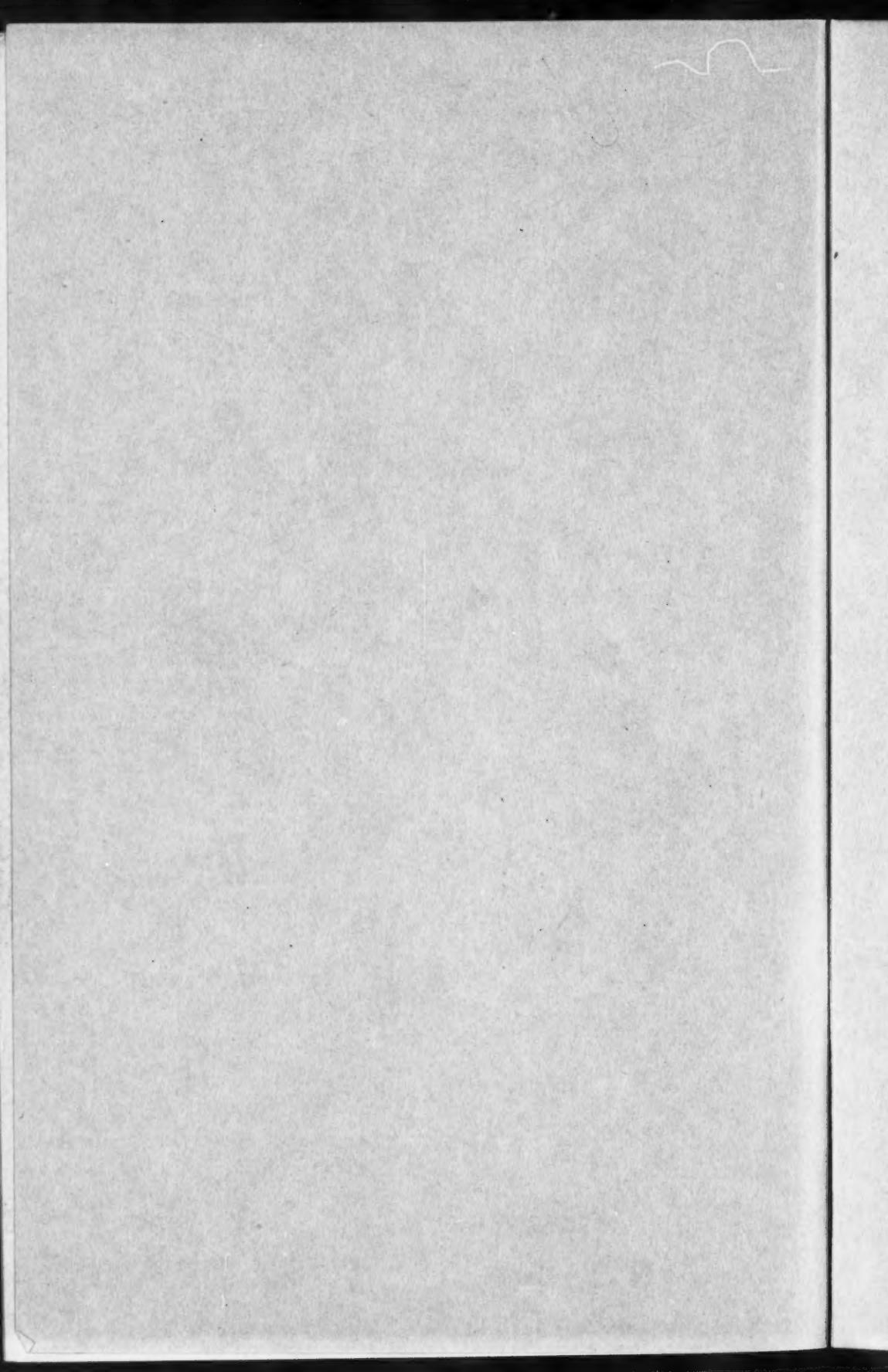
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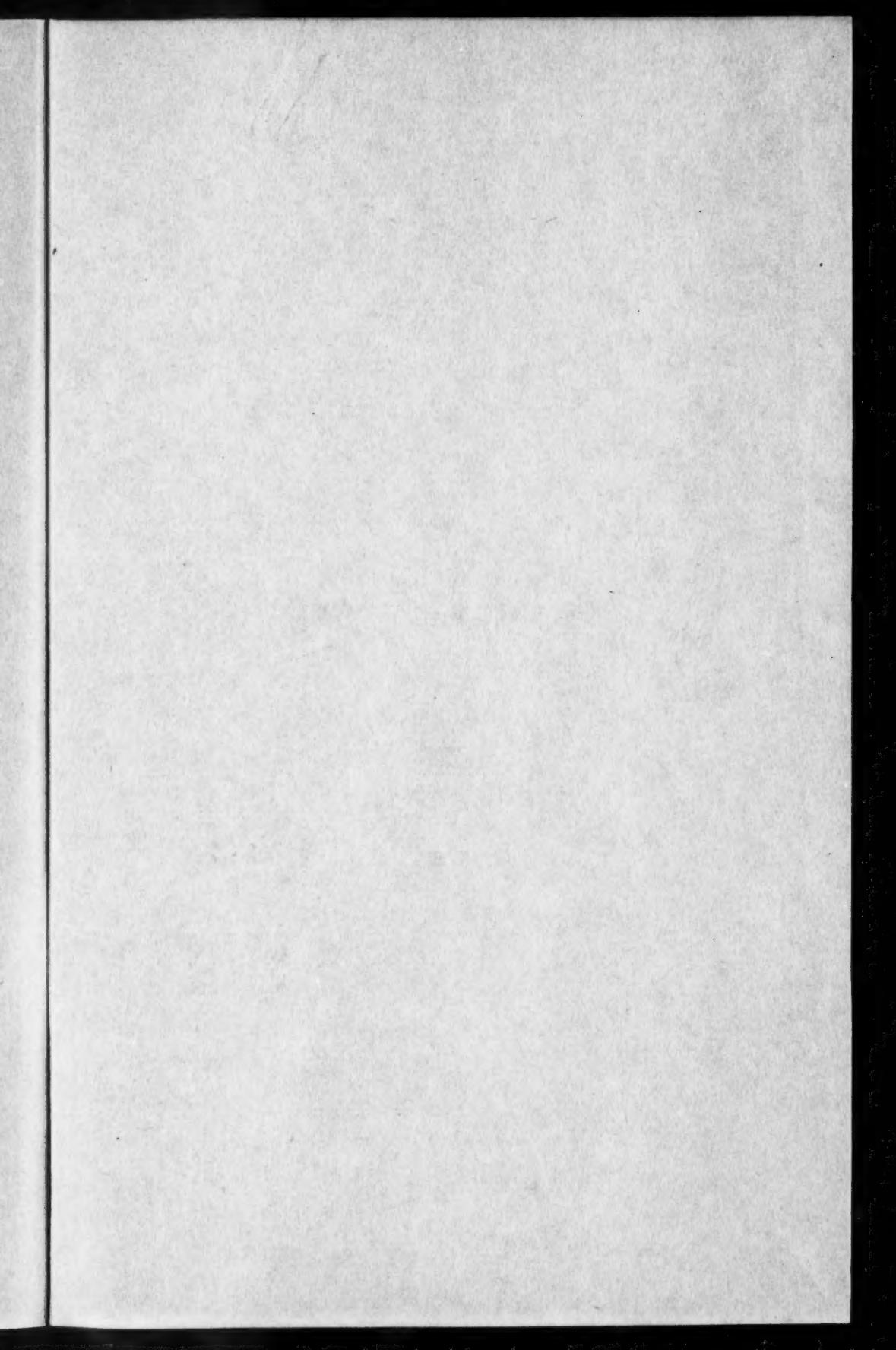
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